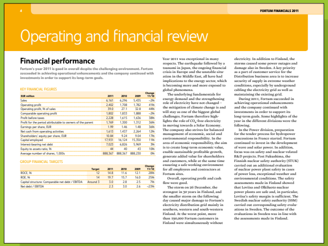
Financials 2011

Fortum

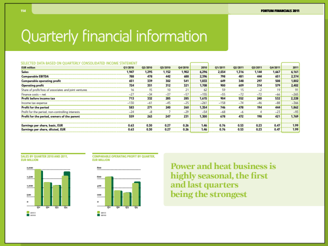
Reader’s guide

FINANCIALS 2011

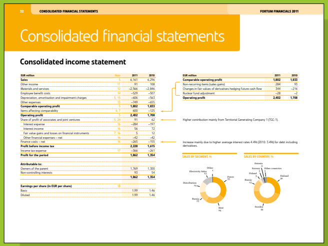
This report includes the audited consolidated financial statements of the Fortum Group, review of the operations during the year and corporate governance statement of the company.



4–31 OPERATING AND FINANCIAL REVIEW Read here of the financial performance of Fortum Group during 2011, the Group’s risk management as well as the Fortum share price performance and share capital.

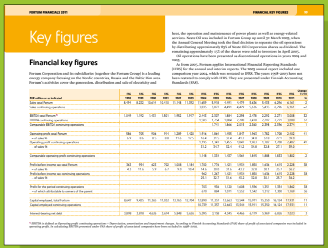


114–115 QUARTERLY FINANCIAL INFORMATION Look here for quarterly financial information for years 2010 and 2011.



32–98 CONSOLIDATED FINANCIAL STATEMENTS Here you can find the financial statements of Fortum Group including the notes information.

116–127 CORPORATE GOVERNANCE This section includes the Corporate Governance Statement as well as information on remuneration as stipulated by the Finnish Corporate Governance Code.



99–105 KEY FIGURES Includes financial key figures, share key figures, operational key figures for volumes and segments as well as the definitions of key figures.

128–131 BOARD OF DIRECTORS AND GROUP MANAGEMENT See here the composition of Fortum’s Board of Directors and the Group Management

SUSTAINABILITY REPORT 2011

In addition to the Financials, Fortum publishes Sustainability Report in the end of March 2012 with the theme “Towards Solar Economy”. The report follows the Global Reporting Initiative’s (GRI) G3 Guidelines.

ONLINE ANNUAL REPORT 2011

Fortum’s online Annual Report is a compiled version of the Sustainability Report and Financials and it also includes the division reviews. The online report is published in the end of March 2012.
http://annualreporting.fortum.com

Contents

Fortum's purpose is to create energy that improves life for present and future generations. Our activities cover the generation, distribution and sales of electricity and heat as well as related expert services.

In 2011, Fortum's sales totalled EUR 6.2 billion and comparable operating profit was EUR 1.8 billion. We employ approximately 10,800 people. Fortum's shares are quoted on NASDAQ OMX Helsinki.

Fortum in brief

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

FINLAND	
Power generation capacity	5,157 MW
Heat production capacity	4,003 MW
Distribution customers	627,000
Share of electricity customers	14%
Employees	2,683

POLAND	
Heat production capacity	1,403 MW
Employees	859

ESTONIA	
Heat production capacity	801 MW
Distribution customers	24,000
Employees	331

GREAT BRITAIN	
Power generation capacity	140 MW
Heat production capacity	250 MW
Employees	58

SWEDEN	
Power generation capacity	5,875 MW
Heat production capacity	3,773 MW
Distribution customers	893,000
Share of electricity customers	12%
Employees	2,040

RUSSIA	
Power generation capacity	3,404 MW
Heat production capacity	14,107 MW
Employees	4,376

NORWAY	
Heat production capacity	167 MW
Distribution customers	101,000
Share of electricity customers	3%
Employees	139

LATVIA	
Heat production capacity	192 MW
Employees	90

LITHUANIA	
Heat production capacity	36 MW
Employees	94

Group business structure

Divisions	Power	Heat	Russia	Electricity Solutions and Distribution (ESD)	
Business	The Power Division consists of Fortum's power generation, physical operation and trading as well as expert services for power producers.	The Heat Division consists of combined heat and power generation (CHP), district heating and cooling activities and business-to-business heating solutions.	The Russia Division consists of power and heat generation and sales in Russia. It includes OAO Fortum and Fortum's over 25% holding in TGC-1.	The Electricity Solutions and Distribution Division is responsible for Fortum's electricity sales and distribution activities. The division consists of two business areas: Distribution and Electricity Sales.	
Reporting segment	**Power**	**Heat**	**Russia**	**Distribution**	**Electricity sales**
Sales	EUR 2,481 million	EUR 1,737 million	EUR 920 million	EUR 973 million	EUR 900 million
Comparable operating profit	EUR 1,201 million	EUR 278 million	EUR 74 million	EUR 295 million	EUR 27 million
Share of Fortum's sales	35%	24%	13%	14%	13%
Net assets	EUR 6,247 million	EUR 4,191 million	EUR 3,273 million	EUR 3,589 million	EUR 11 million
Comparable return on net assets	19.9%	7.4%	3.5%	8.6%	33.5%
Employees, 31 Dec. 2011	1,847	2,504	4,379	898	519
Market position	Second largest power producer in the Nordic countries; among the 15 largest in Europe and Russia	Leading heat supplier in the Nordic countries; growing operations in Poland and the Baltics	One of the leading operators in West Siberia and the Urals area in power and heat	Leading operator in electricity distribution in the Nordic countries: total of 1.6 million electricity distribution customers	Second largest electricity sales company in the Nordic countries: 1.2 million retail customers
Geographic area and scope of operations	**Production in Finland, Sweden and Great Britain. Expert services world-wide.** In Finland and Sweden 260 hydropower plants, ownership in two nuclear reactors, and co-ownerships in 8 nuclear reactors, two condensing power plants, and co-ownerships in wind power plants. A CHP plant in the Great Britain. Expert services worldwide.	**Finland, Sweden, Norway, Poland, Lithuania, Latvia, Estonia** 20 CHP plants and several hundred heat plants and centres in the Nordic and Baltic countries and in Poland.	**Russia** OAO Fortum has 8 CHP plants and 21 heat plants in the Urals and West Siberia region. Existing power generation capacity approximately 2,800 MW. Investment programme will increase power generation capacity by approximately 2,400 MW.	**Finland, Sweden, Norway, Estonia** [1] 1.6 million electricity distribution customers in the Nordic countries and Estonia. [1] *Fortum's distribution business in Estonia was divested in the beginning of 2012.*	**Finland, Sweden, Norway** 1.2 million retail customers in the Nordic countries.
Business drivers	• Nord Pool electricity price, stability through hedging • About 90% of production is hydro and nuclear power: hydrological situation, nuclear power availability, and prices of fuels and emissions allowances important	• Steady growth through investments • Fuel flexibility and efficiency play a key role • Recent investments into new CHP production to bring earnings	• Liberalised power markets • Investment programme: positive economic value added through new capacity and new volume • Efficiency upgrades • Gas and electricity price ratio	• Regulated, steady return • Very capital-intensive • Growth through investments • Long-term optimised levels of investment and maintenance • Cost-efficiency and quality of service	• Margin between Nord Pool wholesale purchase price and retail sales price • Efficient hedging of the margin • Leading seller of eco-labelled and carbon dioxide-free electricity in Finland, Sweden and Norway
Strategy drivers	• Flexible, market-driven production portfolio • Focus on CO_2-free nuclear and hydro power • Solid position on the Nordic power market, proven track-record from liberalised power markets an opportunity in the integrating European market	• Need for increased resource-efficiency will increase CHP's competitiveness • EU Directive to drive new CHP investment potential further • Potential for increased usage of local biofuels and waste • Organic growth potential in emerging markets • Utilisation of CHP competence in fuels and efficient production	• Power demand growth • Bringing the ongoing investment programme to completion • Development of modern, CHP-driven heat business	• Stable regulated earnings • Technical development utilised for a more efficient, reliable and smarter network enabling sustainable and energy-efficient solutions for customers	• Cost efficiency through efficient business processes • Growth in customer base through new offerings and innovative solutions • Economies of scale

Operating and financial review

Financial performance

Fortum's year 2011 is good in overall despite the challenging environment. Fortum succeeded in achieving operational enhancements and the company continued with investments in order to support its long-term goals.

KEY FINANCIAL FIGURES

EUR million	2011	2010	2009	Change 11/10
Sales	6,161	6,296	5,435	–2%
Operating profit	2,402	1,708	1,782	41%
Operating profit, % of sales	39.0	27.1	32.8	44%
Comparable operating profit	1,802	1,833	1,888	–2%
Profit before taxes	2,228	1,615	1,636	38%
Profit for the period attributable to owners of the parent	1,769	1,300	1,312	36%
Earnings per share, EUR	1.99	1.46	1.48	36%
Net cash from operating activities	1,613	1,437	2,264	12%
Shareholders' equity per share, EUR	10.84	9.24	9.04	17%
Capital employed	17,931	16,124	15,350	11%
Interest-bearing net debt	7,023	6,826	5,969	3%
Equity to assets ratio, %	44	40	43	10%
Average number of shares, 1,000s	888,367	888,367	888,230	0%

GROUP FINANCIAL TARGETS

	Target	2011	2010	2009	Change 11/10
ROCE, %	12	14.8	11.6	12.1	28%
ROE, %	14	19.7	15.7	16.0	25%
Capital structure: Comparable net debt / EBITDA	Around 3	3.0	2.8	2.5	7%
Net debt / EBITDA		2.3	3.0	2.6	–23%

Year 2011 was exceptional in many respects. The earthquake followed by a tsunami in Japan, the ongoing financial crisis in Europe and the unstable situation in the Middle East, all have had implications to the energy sector, which is becoming more and more exposed to global phenomena.

The underlying fundamentals for energy demand and the strengthening role of electricity have not changed – the mitigation of climate change is and will stay as one of the biggest global challenges. Fortum therefore highlights the role of CO_2-free electricity in moving towards a Solar Economy. The company also strives for balanced management of economic, social and environmental responsibility. In the area of economic responsibility, the aim is to create long-term economic value, enable sustainable profitable growth, generate added value for shareholders and customers, while at the same time ensuring a safe working environment for all employees and contractors at Fortum sites.

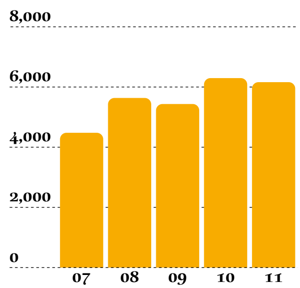
Overall, operating profit and cash flow were good.

The storm on 26 December, the strongest in 30 years in Finland, and the smaller storm on the following day caused major damage to Fortum's electricity distribution grid mainly in southern, western and south-western Finland. At the worst point, more than 190,000 Fortum customers in Finland were simultaneously without electricity. In addition to Finland, the storms caused some power outages and damage also in Sweden. A key priority as a part of customer service for the Distribution business area is to increase security of supply in extreme weather conditions, especially by underground cabling the electricity grid as well as maintaining the existing grid.

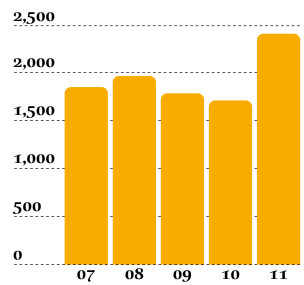
During 2011, Fortum succeeded in achieving operational enhancements and the company continued with investments in order to support its long-term goals. Some highlights of the year in the different divisions were the following.

In the Power division, preparation for the tender process for hydropower concessions in France started. Fortum continued to invest in the development of wave and solar power. In addition, focus was on safety and nuclear-related R&D projects. Post Fukushima, the Finnish nuclear safety authority (STUK) carried out an additional evaluation of nuclear power plant safety in cases of power loss, exceptional weather and environmental conditions. The safety assessments made in Finland showed that Loviisa and Olkiluoto nuclear power plants are safe and, in particular, Loviisa's safety margin is sufficient. The Swedish nuclear safety authority (SSM) carried out corresponding safety evaluations in Sweden. The outcome of the evaluations in Sweden was in line with the assessments made in Finland.

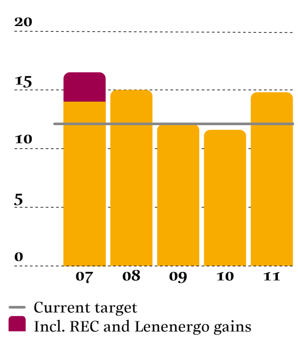
SALES, EUR million



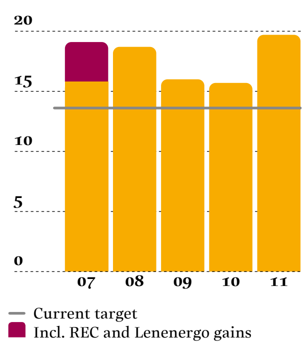
OPERATING PROFIT, EUR million



RETURN ON CAPITAL EMPLOYED, %



RETURN ON SHAREHOLDERS' EQUITY, %



The Heat division inaugurated a new biomass-fired CHP (combined heat and power) plant in Pärnu in Estonia. Several new CHP plants are under construction in the Baltic region, Finland and Sweden, e.g. Klaipeda, Jelgava, Järvenpää and Brista 2. In addition, two companies were acquired in Poland and new pricing solutions to customers were launched in Finland and Sweden. Fortum also finalised the divestment of its district heat operations and heat production facilities outside the Stockholm area in Sweden.

In the Russia division, where new capacity will be the key driver for positive economic added value, the ongoing investment programme continued to proceed well. A new unit at Chelyabinsk CHP-3, as well as two new units in Tyumen and Tobolsk, were commissioned. Construction of the Nyagan power plant continued, and the Ring project to increase energy efficiency in Chelyabinsk, was started.

In the Electricity Solutions and Distribution division, the rollout of smart metering to the network customers in Finland started, and in Sweden Fortum's grids were opened to enable customers to sell their own produced electricity.

1 MARKET CONDITIONS

1.1 Nordic countries

According to preliminary statistics, the Nordic countries consumed 382 TWh (2010: 403) in 2011, which is 5% less than in 2010. The decrease was mainly due to warmer weather: the fourth quarter was historically warm, up to 8 degrees warmer than the year before. In the latter half of 2011, industrial electricity consumption also declined from the year before.

At the beginning of 2011, the Nordic water reservoirs were 54 TWh, which is 29 TWh less than the long-term average. At the end of the year, the Nordic water reservoirs were 12 TWh above the long-term average and 41 TWh above the corresponding level in 2010. In 2011, the Nordic inflow was approximately 20% higher than during an average year.

In 2011, the average system spot price for power in Nord Pool was EUR 47.1 (2010: 53.1) per MWh. The Finnish and Swedish area prices were above the system price level, at EUR 49.3 (2010: 56.6) per MWh in Finland and EUR 47.9 (2010: 56.8) per MWh in Sweden. In Germany the average spot price during the year was EUR 51.1 (2010: 44.5) per MWh.

On 1 November 2011, the transition from one to four bidding areas in the Swedish electricity spot market was implemented, resulting in several spot prices for Sweden. In the average prices presented above, the price of the Stockholm (SE3) bidding area has been applied for the period when a single price for Sweden was no longer available.

1.2 Russia

In 2011, Russia consumed approximately 1,020 TWh (2010: 1,006) of electricity. The corresponding figure in the First price zone was 760 TWh (2010: 746).

OAO Fortum operates in the Tyumen and Chelyabinsk areas. In the Tyumen area, where industrial production is dominated by the oil and gas industries, electricity demand increased by 0.5% compared to 2010. In the Chelyabinsk area, which is dominated by the metal industry, electricity demand increased by approximately 3.3%. The increase is mainly due to the recovery in industrial consumption.

The average electricity spot price, excluding capacity price, in the First price zone increased by 12.3% to RUB 989 (2010: 881) per MWh.

POWER CONSUMPTION

TWh	2011	2010	2009
Nordic countries	382	403	378
Russia	1,020	1,006	964
Tyumen	82	82	81
Chelyabinsk	36	35	32
Russia Urals area	250	245	236

AVERAGE PRICES

	2011	2010	2009
Spot price for power in Nord Pool power exchange, EUR/MWh	47.1	53.1	35.0
Spot price for power in Finland, EUR/MWh	49.3	56.6	37.0
Spot price for power in Sweden, EUR/MWh 1)	47.9	56.8	37.0
Spot price for power in European and Urals part of Russia, RUB/MWh 2)	989	881	667
Average capacity price, tRUB/MW/month	209	191	N/A
Spot price for power in Germany, EUR/MWh	51.1	44.5	39.0
Average regulated gas price in Urals region, RUB/1000 m^3	2,548	2,221	1,781
Average capacity price for old capacity, tRUB/MW/month 3)	160	191	N/A
Average capacity price for new capacity, tRUB/MW/month 3)	560	N/A	N/A
Spot price for power (market price), Urals hub, RUB/MWh 2)	925	835	633
CO_2, (ETS EUA), EUR/tonne CO_2	13	14	13
Coal (ICE Rotterdam), USD/tonne	122	92	70
Oil (Brent Crude), USD/bbl	111	80	63

1) *From 1st Nov 2011 onwards price area SE3 (Stockholm).*
2) *Excluding capacity tariff.*
3) *Capacity prices paid only for the capacity available at the time.*

WATER RESERVOIRS

TWh	31 Dec 2011	31 Dec 2010	31 Dec 2009
Nordic water reservoirs level	95	54	74
Nordic water reservoirs level, long-term average	83	83	81

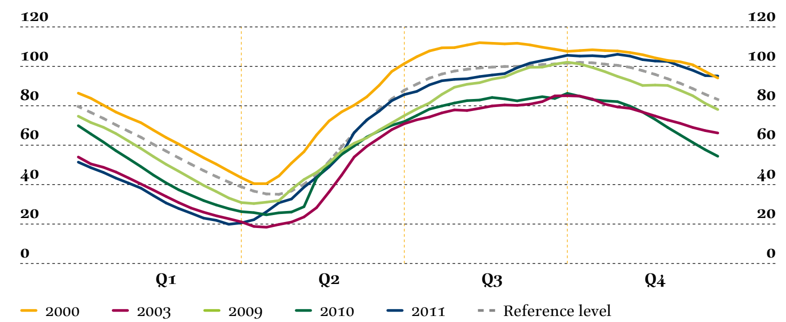
EXPORT/IMPORT BETWEEN NORDIC AREA AND CONTINENTAL EUROPE

TWh (+ = import to, – = export from Nordic area)	2011	2010	2009
Export / import	–6	8	N/A

POWER MARKET LIBERALISATION IN RUSSIA

%	2011	2010	2009
Share of power sold on the liberalised market	100	70	40
Share of power sold at the liberalised price by OAO Fortum	85	61	34

NORDIC WATER RESERVOIRS, WEEKLY FILLING AS ENERGY, TWh



2 FINANCIAL RESULTS

SALES BY DIVISION

EUR million	2011	2010	2009 3)	Change 11/10
Power	2,481	2,702	2,531	–8%
Heat	1,737	1,770	1,399	–2%
Russia	920	804	632	14%
Distribution 1)	973	963	800	1%
Electricity sales 1)	900	1,798	1,449	–50%
Other	108	51	71	112%
Netting of Nord Pool Spot transactions 2)	–749	–1,736	–1,095	57%
Eliminations	–209	–56	–352	–273%
Total	**6,161**	**6,296**	**5,435**	**–2%**

COMPARABLE OPERATING PROFIT BY DIVISION

EUR million	2011	2010	2009 3)	Change 11/10
Power	1,201	1,298	1,454	–7%
Heat	278	275	231	1%
Russia	74	8	–20	825%
Distribution 1)	295	307	262	–4%
Electricity sales 1)	27	11	22	145%
Other	–73	–66	–61	–11%
Total	**1,802**	**1,833**	**1,888**	**–2%**

OPERATING PROFIT BY DIVISION

EUR million	2011	2010	2009 [3]	Change 11/10
Power	1,476	1,132	1,363	30%
Heat	380	303	252	25%
Russia	74	53	–20	40%
Distribution [1]	478	321	263	49%
Electricity sales [1]	3	46	29	–93%
Other	–9	–147	–105	94%
Total	**2,402**	**1,708**	**1,782**	**41%**

[1] *Part of the Electricity Solutions and Distribution division.*

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

[3] *In October 2009 Fortum restructured its organisation into four business divisions and four staff functions. The reorganisation led to minor changes to the composition of the segments that have taken effect from the beginning of January 2010. The changes have also been reflected in the 2009 figures. This applies to all segment information presented in the Operating and financial review.*

For further information see Note 5 Segment reporting on page 60.

In 2011, Group sales were EUR 6,161 million (2010: 6,296). Group operating profit totalled EUR 2,402 million (2010: 1,708). Fortum's operating profit for the period was affected by a EUR 344 million (2010: −216) IFRS accounting treatment (IAS 39) of derivatives mainly used for hedging Fortum's power production. The comparable operating profit, which was not impacted by the accounting treatment, totalled EUR 1,802 million (2010: 1,833).

Non-recurring items, mark-to-market effects and nuclear fund adjustments amounted to EUR 600 million (2010: −125) in 2011. Changes in fair values of derivatives hedging future cash flow accounted for EUR 344 million (2010: −216). Non-recurring items totalled EUR 284 million (2010: 93), which mainly relates to the divestment of shares in Fingrid Oyj and the divestment of district heat operations and production facilities outside Stockholm.

The average Swedish krona (SEK) rate was approximately 6% stronger against the euro than in 2010. The strong SEK during the first half of the year also had a negative impact on the cash flow.

The share of profits of associates and joint ventures was EUR 91 million (2010: 62). The improvement from last year was mainly due to the improvement in the contribution from Territorial Generating Company 1 (TGC-1).

The Group's net financial expenses increased to EUR 265 million (2010: 155). The increase is attributable to higher interest expenses, mainly due to higher SEK interest rates and to higher average net debt in 2011 than in 2010. Net financial expenses were positively affected by changes in the fair value of financial instruments of EUR 5 million (2010: 12).

Profit before taxes was EUR 2,228 million (2010: 1,615).

Taxes for 2011 totalled EUR 366 million (2010: 261). The tax rate according to the income statement was 16.4% (2010: 16.2%). The tax rate excluding the tax rate change in Finland, the impact of share of profits of associated companies and joint ventures as well as non-taxable capital gains was 21.4% (2010: 17.7%). In Finland, the corporate tax rate was decreased to 24.5% from 26% starting 1 January 2012. In 2011, the one-time positive effect from the tax rate change is approximately EUR 29 million due to deferred taxes.

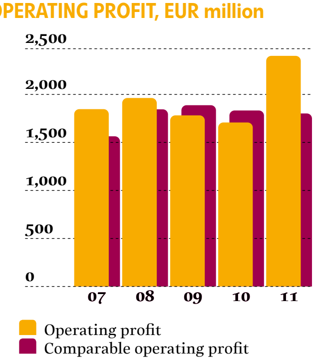
The profit for the period was EUR 1,862 million (2010: 1,354). Fortum's earnings per share were EUR 1.99 (2010: 1.46). The effect on earnings per share by the accounting treatment of derivatives was EUR 0.29 (2010: −0.18).

Non-controlling (minority) interests amounted to EUR 93 million (2010: 54). These are mainly attributable to Fortum Värme Holding AB, in which the city of Stockholm has a 50% economic interest. The increase in 2011, compared to 2010, is mainly due to the minority's share, EUR 32 million, of the gain recognised in the first quarter from the divestment of Fortum Värme's heat businesses outside the Stockholm area.

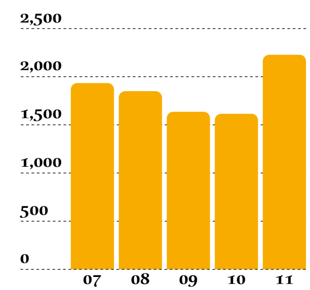
Cash flow from operating activities totalled EUR 1,613 million (2010: 1,437). It was affected by the realised foreign exchange gains and losses, which amounted to EUR −239 million (2010: −535) in 2011. The negative currency impact occurred during the first quarter. The foreign exchange gains and losses relate to the rollover of foreign exchange contracts hedging loans to Fortum's Swedish subsidiaries.

Fortum's key financial ratios for 2011 were: return on capital employed 14.8% (2010: 11.6%), return on shareholders' equity 19.7% (2010: 15.7%) and net debt to EBITDA 2.3 (2010: 3.0). The comparable net debt to EBITDA for 2011 was 3.0 (2010: 2.8).

OPERATING PROFIT AND COMPARABLE OPERATING PROFIT, EUR million



PROFIT BEFORE TAXES, EUR million

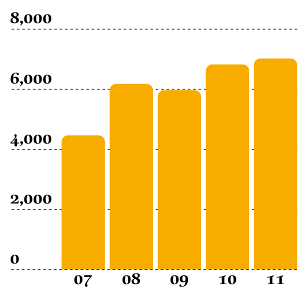


3 FINANCIAL POSITION AND CASH FLOW

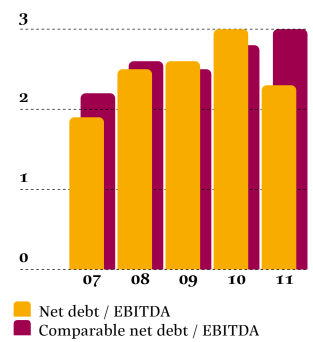
EUR million	2011	2010	2009	Change 11/10
Interest expense	–284	–197	–241	44%
Interest income	56	72	98	–22%
Fair value gains and losses	5	12	–1	–58%
Other financial expenses	–42	–42	–23	0%
Finance costs – net	**–265**	**–155**	**–167**	**71%**
Interest-bearing liabilities	7,770	7,382	6,859	5%
Less: Liquid funds [1]	747	556	890	34%
Interest-bearing net debt	**7,023**	**6,826**	**5,969**	**3%**

[1] *2011 includes EUR 16 million presented as asset held for sale.*

INTEREST-BEARING NET DEBT, EUR million



NET DEBT / EBITDA



3.1 Cash flow

In 2011, total net cash from operating activities increased by 12% to EUR 1,613 million (2010: 1,437). The major part of the increase was attributable to lower foreign exchange losses in cash flow, EUR 296 million, offset by higher paid interest costs and taxes.

Capital expenditures in cash flow increased by EUR 151 million to EUR 1,285 million (2010: 1,134). Acquisitions of shares totalled EUR 62 million (2010: 28). Proceeds from sales of fixed assets and divestments of shares totalled EUR 507 million (2010: 154) including EUR 325 million from the divestment of Fingrid Oyj shares, and EUR 111 million related to divestment of the district heat operations and heat production facilities outside Stockholm. Part of the sales price related to the heat divestment, approximately EUR 90 million, is included in the change of interest bearing receivables in cash flow.

Cash flow before financing activities, i.e. dividend distributions and financing, increased by EUR 453 million to EUR 788 million (2010: 335). Dividends paid in both 2011 and 2010 totalled EUR 888 million.

3.2 Assets and capital employed

Total assets increased by EUR 1,034 million to EUR 22,998 million (2010: 21,964). Non-current assets increased by EUR 775 million. A major part, EUR 613 million, came from increase in property plant and equipment, which totalled EUR 15,234 million (2010: 14,621). The increase in current assets was EUR 259 million, totalling EUR 2,788 million. Fair value of derivative financial instruments in non-current and current assets increased by a total of EUR 391 million.

Capital employed was EUR 17,931 million (2010: 16,124), an increase of EUR 1,807 million. The increase was due to higher amount of total assets amounting to EUR 1,034 million, decrease of derivative financial liabilities amounting to EUR 1,034 million, and increase in deferred tax liabilities amounting to EUR 288 million. The increase in deferred tax liabilities is mainly related to change in derivative liabilities.

3.3 Equity

Total equity was EUR 10,161 million (2010: 8,742), of which equity attributable to owners of the parent company totalled EUR 9,632 million (2010: 8,210) and non-controlling interests EUR 529 million (2010: 532). The increase in equity attributable to owners of the parent company totalled EUR 1,422 million, and arose mainly from net profit for the period amounting to EUR 1,769 million, and from the effect from cash flow hedges totalling EUR 555 million netted by dividends of EUR 888 million.

3.4 Financing

Net debt increased by EUR 197 million to EUR 7,023 million (2010: 6,826).

Net debt to EBITDA for 2011 was 2.3 (2010: 3.0) and comparable net debt to EBITDA 3.0 (2010: 2.8).

At the end of the year, the Group's liquid funds totalled EUR 747 million (2010: 556). Liquid funds include cash and bank deposits held by OAO Fortum amounting to EUR 211 million (2010: 348). In addition to the liquid funds, Fortum had access to approximately EUR 2.7 billion of undrawn committed credit facilities.

The Group's net financial expenses in 2011 were EUR 265 million (2010: 155). The increase in financial expenses is mainly attributable to higher market interest rates and higher average net debt in 2011. Net financial expenses also include changes in the fair value of financial instruments of EUR 5 million (2010: 12).

On 11 July, Fortum Oyj signed a new 5-year syndicated revolving credit facility of EUR 2.5 billion, replacing existing syndicated revolving credit facilities of EUR 1.2 billion maturing in November 2011 and EUR 1.5 billion maturing in March 2013. After this refinancing, the total amount of undrawn committed credit facilities, including overdrafts, is approximately EUR 2.7 billion.

In December, Standard &Poor's revised its outlook rating for Fortum Corporation from (stable) to (negative), but at the same time affirmed the (A) long-term rating. Fortum Corporation's long-term credit rating from Moody's, A2 (stable), remained unchanged.

For further details about financing see Note 3 Financial risk management on page 52.

3.5 Key figures

Net debt to EBITDA for 2011 was 2.3 (2010: 3.0) and comparable net debt to EBITDA 3.0 (2010: 2.8). Gearing was 69% (2010: 78%) and the equity-to-assets ratio 44% (2010: 40%). Return on capital employed was 14.8% (2010: 11.6%) and return on equity 19.7% (2010: 15.7%).

Equity per share was EUR 10.84 (2010: 9.24).

For further details about financing see Note 3 Financial risk management on page 52.

4 DIVISION REVIEWS

4.1 Power

The Power division consists of Fortum's power generation, physical operation and trading as well as expert services for power producers.

EUR million	2011	2010	2009	Change 11/10
Sales	2,481	2,702	2,531	–8%
– power sales	2,353	2,580	2,413	–9%
– other sales	128	122	118	5%
Operating profit	1,476	1,132	1,363	30%
Comparable operating profit	1,201	1,298	1,454	–7%
Comparable EBITDA	1,310	1,398	1,547	–6%
Net assets (at period-end)	6,247	5,806	5,494	8%
Return on net assets, %	24.6	19.5	24.5	26%
Comparable return on net assets, %	19.9	22.3	26.4	–11%
Capital expenditure and gross investments in shares	148	122	153	21%
Number of employees	1,847	1,819	1,916	2%

In 2011, the Power division's comparable operating profit was EUR 1,201 million (2010: 1,298), EUR 97 million lower than in 2010. Low hydro volumes in the beginning of 2011 and the high comparison figure of 2010 resulted in 1 TWh lower hydro volumes comparing year on year. Nuclear volumes improved by 2.9 TWh, mainly due to improved availability in Sweden. The division's achieved Nordic power price was EUR 1.8 per MWh lower than in 2010.

The comparable operating profit was impacted by several factors. The negative impact of the volume and price mix was approximately EUR 5 million. The SEK currency impact totalled approximately EUR –30 million. The increased Swedish property tax decreased profits by approximately EUR 17 million. In addition, the impact of the expired Russian power import contract was approximately EUR –40 million.

POWER GENERATION BY SOURCE

TWh	2011	2010	2009	Change 11/10
Hydropower	21.0	22.0	22.1	–5%
Nuclear power	24.9	22.0	21.4	13%
Thermal power	2.2	2.3	0.2	–4%
Total in the Nordic countries	**48.1**	**46.3**	**43.7**	**4%**
Thermal in other countries	1.2	1.1	1.2	9%
Total	**49.3**	**47.4**	**44.9**	**4%**

NORDIC SALES VOLUME

TWh	2011	2010	2009	Change 11/10
Total	50.0	51.5	48.8	–3%
of which Nordic Power sales volume [1]	44.3	42.5	N/A	4%

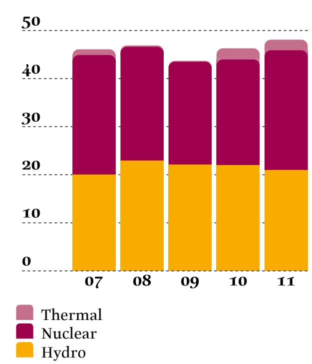
SALES PRICE

EUR/MWh	2011	2010	2009	Change 11/10
Power's Nordic power price [2]	46.1	49.7	N/A	–7%

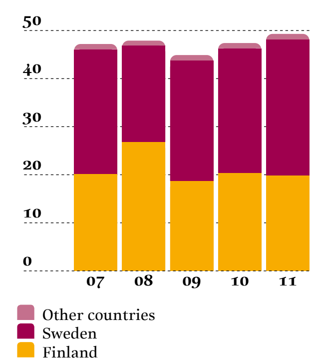
[1] *The Nordic power sales income and volume does not include thermal generation, market price-related purchases or minorities (i.e Meri-Pori, Inkoo and imports from Russia).*

[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).*

DIVISION'S POWER GENERATION IN THE NORDIC AREA BY SOURCE, TWh



DIVISION'S POWER GENERATION BY AREA, TWh



The division's total power generation in 2011 in the Nordic countries was 48.1 TWh (2010: 46.3), which corresponds to a 4% increase compared to 2010. The share of CO_2-free production was 93% (2010: 93%). In Sweden, nuclear availability improved, clearly increasing nuclear volumes. Hydro inflow and reservoir levels were at historically low levels at the beginning of the year, but improved throughout the period. Hydro production in 2011 was lower than in 2010 when hydro volumes were historically high. Hydro production availability remained at high levels throughout the year. At the end of the year, the Nordic water reservoirs were 10 TWh above the long-term average.

In 2011, Power's achieved Nordic power price amounted to EUR 46.1 per MWh, which was EUR 1.8 per MWh lower than in 2010, mainly due to lower area prices.

Fortum has two fully-owned reactors in Loviisa and is a co-owner in eight reactors at the Olkiluoto, Oskarshamn and Forsmark nuclear power plants.

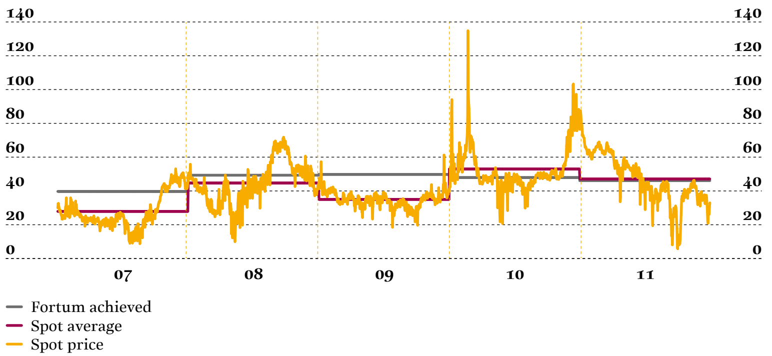
In 2011, the availability at the Loviisa nuclear power plant was 94.3%, which is very high by international comparison. Forsmark's production improved significantly, achieving availability of 86.2% and hence making 2011 the best year since 2005. Availability at the Oskarhamn plants improved, but was still not at a satisfactory level. Oskarshamn 1 was shut down at the end of October due to turbine vibrations that required an extensive turbine overhaul. The unit is expected to be back in operation at the beginning of February 2012. Oskarshamn 2 was started up from the annual outage at the end of October with turbine modifications and hence an 80-MW reduced output (full output is 590 MW). Oskarshamn 3 reached the new, increased reactor power level of 1,400 MW in September, but is operating at an approximately 100-MW reduced output until all tests have been completed.

In March, the Finnish Parliament approved a temporary renewal of the current Finnish Nuclear Liability Act introducing an approximately EUR 680 million compensation limit and unlimited third-party liability for the operator in case of a severe accident. This temporary revision came into force as of 1 January 2012 and will be valid until the renewed Paris and Brussels conventions are ratified. The increased compensation limit is fully insured by Fortum. The renewal has no material impact to Fortum's financial results.

Post Fukushima, European-wide safety evaluations have been carried out. Along with those, the Finnish nuclear safety authority (STUK) carried out an additional evaluation of safety in cases of power loss, exceptional weather and environmental conditions. The Swedish nuclear safety authority (SSM) carried out corresponding safety evaluations in Sweden. Final national reports were submitted on 30 December 2011. The safety assessments showed that the Loviisa and Olkiluoto nuclear power plants are safe and, in particular, Loviisa's safety margin is sufficient; no major new requirements or new threat factors or deficiencies requiring immediate safety improvements were identified in Finnish nuclear power plants. The outcome in the Swedish assessments was similar to the Finnish one. The European Commission will submit a consolidated report of the national reports to the European Council in June 2012. Fortum believes that some additional safety criteria could be introduced for new and existing nuclear power plants based on the evaluations.

Fortum's preparations for the French hydro concession bidding progressed in 2011 and Fortum was incorporated in France with the establishment of Fortum France SNC.

NORD POOL SPOT, POWER PRICE, 2007–2011, EUR/MWh



4.2 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	2011	2010	2009	Change 11/10
Sales	1,737	1,770	1,399	–2%
– heat sales	1,238	1,269	1,055	–2%
– power sales	342	368	224	–7%
– other sales	157	133	120	18%
Operating profit	380	303	252	25%
Comparable operating profit	278	275	231	1%
Comparable EBITDA	471	462	393	2%
Net assets (at period-end)	4,191	4,182	3,787	0%
Return on net assets, %	9.9	8.4	7.9	18%
Comparable return on net assets, %	7.4	7.7	7.3	–4%
Capital expenditure and gross investments in shares	329	305	359	8%
Number of employees	2,504	2,394	2,552	5%

Heat sales volumes in 2011 amounted to 22.6 TWh (2010: 26.1) and were mainly generated in the Nordic countries. During the same period, power sales volumes totalled 6.2 TWh (2010: 6.5). New combined heat and power capacity, including also the acquisitions made in early 2011, was in use in Estonia and Poland. Volumes, however, decreased due to higher temperatures compared to 2010 and the divestment of district heat operations outside the Stockholm area in Sweden at the end of March.

The Heat division's operating profit in 2011 totalled EUR 380 million (2010:

303). The increase includes a gain of EUR 82 million from the divestment of heat business in Sweden recognised in the first quarter. The comparable operating profit in 2011 totalled EUR 278 million (2010: 275). The increase was mainly due to enhanced availability and lower peak-load impact, which improved heat sales margins, and a positive SEK currency impact. Lower volumes, however, offset the improvement. Volumes decreased due to warm weather, lower power spot prices and the divestment of the district heat operations outside the Stockholm area in Sweden. In Finland, higher fuel costs reduced power margins.

In January, the old production line for city gas was closed and a new, more environmentally benign quality of gas was successfully introduced in the city gas network in Stockholm, Sweden. In addition, the first station for commercial biogas fuel for cars was opened at the Arlanda airport in Stockholm during the first quarter. In Finland, taxes on fuels for heat production were increased as of 1 January 2011. These increases were reflected in end-user prices for heat accordingly.

In May Fortum started the construction of the first waste-fired CHP plant in the Baltic region. The plant will replace the gas-fired production plant in Klaipeda, Lithuania. The plant makes a positive environmental impact by reducing greenhouse gas emissions. Also in May, the proposal for competition in the district heating grid in Sweden – third party access – was presented by the authorities. Regarding district heating in the Stockholm area, the competition authority concluded in 2010 that the real price had decreased by 1.5% since 2005.

In the fourth quarter, the restructuring of the production company Turun Seudun Maakaasu ja Energiatuotanto Oy (TSME) progressed and the new shareholders agreement was signed in December 2011. TSME is a co-owned company that consolidates the energy production in the Turku region in Finland. Fortum also agreed to sell Fortum Energiaratkaisut Oy and Fortum Termest AS to the EQT Infrastructure Fund. The operation covers heat, steam and cooling business for SMEs and the services sector in Finland and Estonia. This business differs significantly from large-scale district heat production and CHP production, which are the focus areas of Fortum's strategy. The divestment is planned to be completed during the first quarter of 2012. In addition, new pricing solutions were launched during the fourth quarter to district heating customers in Sweden and Finland. Customers can now choose between different types of products. In addition, major reconstruction of the boiler at the waste-to-energy plant in Högdalen, Sweden, was completed which increased the capacity.

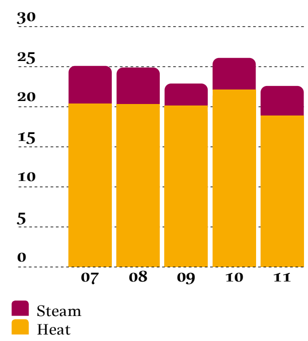
HEAT SALES BY AREA

TWh	2011	2010	2009	Change 11/10
Finland	8.5	9.6	8.0	–11%
Sweden	8.5	10.9	9.8	–22%
Poland	4.3	4.0	3.7	8%
Other countries	1.3	1.6	1.4	–19%
Total	**22.6**	**26.1**	**22.9**	**–13%**

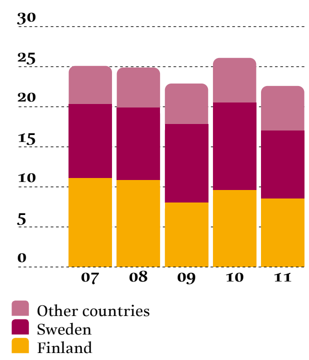
POWER SALES

TWh	2011	2010	2009	Change 11/10
Total	6.2	6.5	4.4	–5%

DIVISION'S DISTRICT HEATING AND INDUSTRIAL STEAM SALES, TWh



DIVISION'S DISTRICT HEATING AND INDUSTRIAL STEAM SALES BY AREA, TWh



4.3 Russia

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

EUR million	2011	2010	2009	Change 11/10
Sales	920	804	632	14%
– power sales	590	505	390	17%
– heat sales	324	287	219	13%
– other sales	6	12	23	–50%
EBITDA	182	139	55	31%
Operating profit	74	53	–20	40%
Comparable operating profit	74	8	–20	825%
Comparable EBITDA	148	94	55	57%
Net assets (at period-end)	3,273	2,817	2,260	16%
Return on net assets, %	3.5	2.4	0.0	46%
Comparable return on net assets, %	3.5	0.7	0.0	400%
Capital expenditure and gross investments in shares	694	599	218	16%
Number of employees	4,379	4,294	4,855	2%

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

The liberalisation of the Russian wholesale power market was completed by the beginning of 2011. However, all generating companies continue to sell a part of their electricity and capacity – equalling the consumption of households and a few special groups of consumers – under regulated prices. In 2011, OAO Fortum sold 85% of its power production at a liberalised electricity price.

KEY ELECTRICITY, CAPACITY AND GAS PRICES FOR OAO FORTUM

	2011	2010	2009	Change 11/10
Electricity spot prices (market prices), Urals hub, RUB/MWh	925	835	633	11%
Average regulated gas price, Urals region, RUB/1,000 m^3	2,548	2,221	1,781	15%
Average capacity price for CCS "old capacity", tRUB/MW/month [1]	160	191	N/A	–16%
Average capacity price for CSA "new capacity", tRUB/MW/month [1]	560	N/A	N/A	N/A
Average capacity price, tRUB/MW/month	209	191	N/A	9%
Achived power price for OAO Fortum, EUR/MWh	29.2	27.0	N/A	8%

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

The new rules for the capacity market starting from 2011 have been approved by the Russian Government. The generation capacity built after 2007 under the government capacity supply agreements (CSA – "new capacity") receive guaranteed payments for a period of 10 years. Prices for capacity under CSA are defined to ensure a sufficient return on investments. Penalty clauses are included in the CSA agreement. At the time of the acquisition in 2008, Fortum made a provision for penalties caused by possible delays. These possible penalties can be claimed if the new capacity is delayed or if the agreed major terms of the capacity supply agreement are not otherwise fulfilled. This means that Fortum's risk for possible penalties under the CSA agreement is proportionally decreasing when a new unit starts its operation. The effect of changes in the timing of commissioning of new power plants is assessed at each balance sheet date and the provision is changed accordingly.

Capacity that is not under CSA participates in competitive capacity selection (CCS – "old capacity"). In December 2010, the first CCS for the year 2011 was held in accordance with the new rules of the capacity market. The new rules stipulate that capacity payments under CCS are made according to actual capacity instead of the previously used installed capacity. This decreased the old capacity payments for CHP power plants, especially during the summer period due to the temperature constraints. The capacity selection for 2012 was held in September 2011. The majority of Fortum's power plants were selected in the auction, with a price level close to the level received in 2011.

Approximately 4% (120 MW) of the old capacity was not allowed to participate in the selection due to tightened minimal technical requirements. The capacity will, however, receive capacity payments at the average capacity market price for two additional years.

The Russia division's power sales volumes amounted to 20.2 TWh (2010: 18.7) and heat sales to 26.7 TWh (2010: 26.8) in 2011.

The comparable operating profit was EUR 74 million (2010: 8). The increase, mainly achieved due to the commissioning of the new power plant units in Tyumen, Chelyabinsk and Tobolsk, totalled approximately EUR 40 million. The improvement was partly offset by lower availability of the new power units at the initial phase. The heat business also contributed to the profit improvement. Lower old capacity income burdened the result by approximately EUR 5 million, as the new rules from 2011 stipulate that old capacity payments are made according to actual capacity (instead of the installed capacity, as was used in 2010). This decreased the old capacity payments for CHP power plants especially during the summer period due to the temperature constraints. In addition, higher fuel costs impacted the result negatively. A reversal of the CSA provision for already commissioned new units, including the effect of changes in the timing of commissioning of new power plants, improved the result for the year by EUR 34 million.

Upon completion, OAO Fortum's new capacity will be a key driver for solid earnings growth in Russia, as it will bring income from new volumes sold and will receive considerably higher capacity payments than the old capacity.

However, the received payments differ depending on the age, location, type and size of the plant as well as seasonality and availability. The return for the new capacity is guaranteed. It can vary somewhat because it is linked to Russian Government long-term bonds with 8 to 10 years maturity. After completing the ongoing investment programme, Fortum targets a positive economic value added for the Russia division.

Fortum is committed to its EUR 2.5 billion investment programme in Russia and the schedule of the programme is to commission the last new units in 2014. The value of the remaining part of the investment programme, calculated at the exchange rates prevailing at the end of December 2011, is estimated to be approximately EUR 0.9 billion as of January 2012.

Altogether, the investment programme consists of eight new power plant units. The first new unit started capacity sales at Tyumen CHP-1 in February. The second unit of Fortum's extensive investment programme started capacity sales at the Chelyabinsk CHP-3 power plant at the beginning of June 2011 and the third new unit in Tobolsk on 1 October 2011.

4.4 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.

4.4.1 Distribution

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

EUR million	2011	2010	2009	Change 11/10
Sales	973	963	800	1%
– distribution network transmission	809	820	685	–1%
– regional network transmission	96	92	75	4%
– other sales	68	51	40	33%
Operating profit	478	321	263	49%
Comparable operating profit	295	307	262	–4%
Comparable EBITDA	482	485	426	–1%
Net assets (at period-end)	3,589	3,683	3,299	–3%
Return on net assets, %	13.7	9.7	8.7	41%
Comparable return on net assets, %	8.6	9.3	8.6	–8%
Capital expenditure and gross investments in shares	289	213	193	36%
Number of employees	898	962	1,088	–7%

In 2011, electricity transmission via the regional network totalled 14.1 TWh (2010: 14.8) in Sweden and 2.6 TWh (2010: 2.8) in Finland.

The Distribution business area's operating profit was EUR 478 million (2010: 321). Fortum booked a EUR 192 million gain on the divestment of its Fingrid Oyj shares in the second quarter. The comparable operating profit was EUR 295 million (2010: 307). Improvements achieved through increased efficiency, lower cost of electricity grid losses and a strong SEK, were offset by post Christmas storms that accounted for a EUR 57 million negative impact in the comparable operating profit.

The rollout of smart metering to the network customers in Finland has proceeded according to plan; by the end of 2011, 160,000 customers had received meters. A total of approximately 580,000 customers will receive new meters before the end of 2013. Invoicing based on realised electricity consumption, a better control of the use of electricity and a platform for new services are some of the benefits of the new system with hourly measurement. The new Finnish legislation on hourly meter reading will become effective 1 January 2014. In Sweden, smart metering to customers has been completed earlier.

A new regulation on network income for Swedish electricity distribution has been passed, with the first regulation period being 2012–2015. The decision introduced among other things a transition rule over an 18-year period that Fortum believes lacks legal ground. The Swedish regulation and transition rule has been appealed by several distribution companies and it is still unclear what the outcome will be.

In Finland, the decision regarding the 3rd regulatory period (2012–2015) was made during the fourth quarter. The decision was mainly in line with expectations. Changes to the past regulation were made in the quality components, i.e. penalties in case of storms have been increased. However, the industry has – through the industry organisation – chosen to appeal certain parts and parameters of the model in the Market court.

The storm on 26 December, the strongest in 30 years in Finland, and the smaller storm on the following day caused major damage to Fortum's power grid mainly in southern, western and south-western Finland. At the worst point, more than 190,000 Fortum customers were simultaneously without electricity. The storms caused some power outages and damage also in Sweden.

VOLUME OF DISTRIBUTED ELECTRICITY IN DISTRIBUTION NETWORK

TWh	2011	2010	2009	Change 11/10
Sweden	14.2	15.2	14.0	–7%
Finland	9.5	10.0	9.4	–5%
Norway	2.3	2.5	2.3	–8%
Estonia	0.1	0.2	0.2	–50%
Total	**26.1**	**27.9**	**25.9**	**–6%**

NUMBER OF ELECTRICITY DISTRIBUTION CUSTOMERS BY AREA

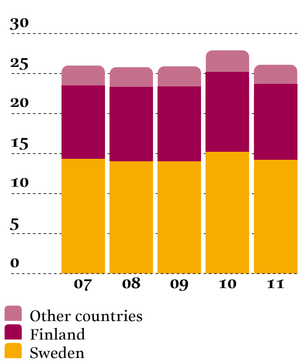
Thousands	2011	2010	2009	Change 11/10
Sweden	893	893	882	0%
Finland	627	620	611	1%
Norway	101	100	99	1%
Estonia	24	24	24	0%
Total	**1,645**	**1,637**	**1,616**	**0%**

4.4.2 Electricity sales

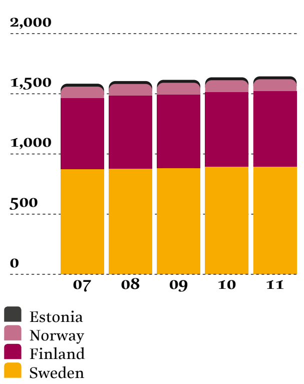
The Electricity Sales business area is responsible for retail sales of electricity to a total of 1.2 million private and business customers. It is the leading seller of eco-labelled and CO_2-free electricity in the Nordic countries. Electricity Sales buys its electricity from the Nordic power exchange.

EUR million	2011	2010	2009	Change 11/10
Sales	900	1,798	1,449	–50%
– power sales	879	1,778	1,417	–51%
– other sales	21	20	32	5%
Operating profit	3	46	29	–93%
Comparable operating profit	27	11	22	145%
Comparable EBITDA	29	13	28	123%
Net assets (at period-end)	11	210	125	–95%
Return on net assets, %	4.2	38.4	28.9	–89%
Comparable return on net assets, %	33.5	9.3	18.6	260%
Capital expenditure and gross investments in shares	5	0	1	N/A
Number of employees	519	525	611	–1%

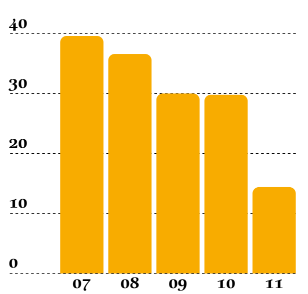
VOLUME OF DISTRIBUTED ELECTRICITY BY AREA, TWh



NUMBER OF ELECTRICITY CUSTOMERS BY AREA, thousands



POWER SALES, TWh



Electricity sales volumes in 2011 were 14.4 TWh (2010: 29.8). Volumes were significantly reduced as a result of the restructuring of the Business Market segment.

Comparable operating profit increased significantly and totalled EUR 27 million (2010: 11). The improvement was due to the restructuring of the unprofitable Business Market segment and stable wholesale market prices, especially in the first quarter of 2011.

In October, Fortum sold its 24.5% ownership in the Norwegian electricity sales company Ishavskraft to four Norwegian power companies. The sale is in line with Fortum's ambition to focus on its own brand in the end consumer market.

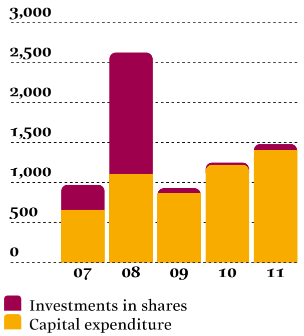
5 CAPITAL EXPENDITURE, INVESTMENTS & DIVESTMENTS OF SHARES

EUR million	2011	2010	2009
Capital expenditure			
Intangible assets	27	19	20
Property, plant and equipment	1,381	1,203	842
Total	**1,408**	**1,222**	**862**
Gross investments in shares			
Subsidiaries	47	0	8
Associated companies	25	26	58
Available for sale financial assets	2	1	1
Total	**74**	**27**	**67**

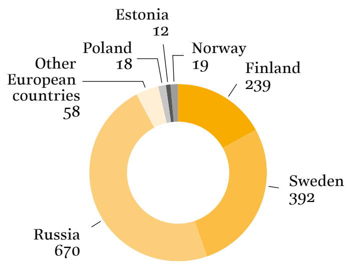
In 2011, capital expenditures and investments in shares totalled EUR 1,482 million (2010: 1,249). Investments, excluding acquisitions, were EUR 1,408 million (2010: 1,222).

See also Note 23.2 Capital expenditure on page 79.

CAPITAL EXPENDITURE AND GROSS INVESTMENTS IN SHARES, EUR million



CAPITAL EXPENDITURE BY AREA, EUR million



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

	Type	Capacity Electricity MW	Capacity Heat MW	Supply starts [1]
Power				
Hydro refurbishment	Hydro power	10–20		2012
Heat				
Klaipeda, Lithuania	Waste (CHP)	20	60	Q1 2013
Järvenpää, Finland	Biofuel (CHP)	23	63	Q2 2013
Jelgava, Latvia	Biofuel (CHP)	23	45	Q3 2013
Brista, Sweden	Waste (CHP)	20	57	Q4 2013
Russia [2]				
Nyagan 1	Gas (CCGT)	418		Q2 2012
Nyagan 2	Gas (CCGT)	418		Q3 2012
Nyagan 3	Gas (CCGT)	418		2013

[1] *Start of commercial operation, preceded by test runs, licensing, etc.*
[2] *Start of capacity sales, preceded by test runs, licensing, etc.*

5.1 Power

Through its interest in Teollisuuden Voima Oyj (TVO), Fortum is participating in the building of Olkiluoto 3, a 1,600-MW nuclear power plant unit in Finland. AREVA-Siemens Consortium, which is constructing Olkiluoto 3 on a fixed-price turn-key contract, has informed TVO that the unit is scheduled to be ready for regular electricity production in August 2014.

TVO's Annual General Meeting decided in March 2011 on a private offering through which the company share capital will be increased by approximately EUR 65 million. Fortum's share of the share issue is approximately EUR 16 million, which was paid in November. The increase in the share capital is in line with the original plan and a part of Fortum's EUR 180 million share capital commitments to finance the Olkiluoto 3 project.

The Extraordinary General Meeting of TVO decided in December 2011 to commence the bidding and engineering phase of the company's fourth nuclear unit at Olkiluoto. Fortum's stake of the commitment for this phase is approximately EUR 77 million, which corresponds to Fortum's share of TVO. The sum will be divided over several years.

Fortum will start construction of a wave power park in Sotenäs, Sweden in 2012, which will be supplied by Seabased AB. After completion, the wave power park will be the world's largest full-scale demonstration project of this kind. The total budget for the project is about EUR 25 million, of which Fortum's share is about half. The Swedish Energy Agency has decided to grant investment support for the project.

The construction of the Blaiken onshore wind farm in northern Sweden continued. Fortum and the Swedish Skellefteå Kraft announced that they will purchase 60 wind turbines from Nordex. Fortum's share of the turbines ordered is 12.

5.2 Heat

In January 2011, Fortum finalised the acquisition of two Polish power and heat companies from the Polish State. The investment amounted to approximately EUR 22 million.

In March 2011, Fortum finalised the divestment of its district heat operations and heat production facilities outside the Stockholm area in Sweden to Macquarie European Infrastructure Fund II (MEIFII) and to Macquarie Power and Infrastructure Corporation (MPIC). The sales price was approximately EUR 220 million.

In April 2011, Fortum and the municipal energy company Sollentuna Energi signed a final agreement according to which Sollentuna Energi will participate with a 15% share in Fortum's new waste-fired CHP unit, Brista 2, which is being built in the Stockholm area in Sweden.

In June 2011, Fortum decided to invest in two new biofuel-fired CHP plants in Järvenpää, Finland, and Jelgava, Latvia. The combined investments total around EUR 160 million and the plants are estimated to start commercial operation in 2013. The new plants will replace oil and gas based heat production with biofuels.

Divestments of smaller heating-only boilers continued throughout the autumn.

In December, Fortum agreed to sell Fortum Energiaratkaisut Oy and Fortum Termest AS to the EQT Infrastructure Fund. The total sales price, including net debt, is approximately EUR 200 million. Fortum's sales gain will be over EUR 50 million. The divestment is planned to be completed during the first quarter of 2012.

The investments and divestments are part of the renewed strategy to focus on the development of CHP production.

5.3 Russia

The first three units of Fortum's extensive investment programme in Russia started commercial operation in 2011: Tyumen CHP-1 in western Siberia started capacity sales at the beginning of February and Chelyabinsk CHP-3 in the Urals region at the beginning of June. The new capacity in Tobolsk was taken into commercial operation on 1 October 2011. Altogether, Fortum's extensive investment programme in Russia consists of eight new units.

5.4 Distribution

On 19 April 2011, Fortum finalised the agreement to sell its 25% shareholding in the Finnish transmission system operator Fingrid Oyj to the Finnish State (Ministry of Employment and the Economy and the National Emergency Supply Agency) and Ilmarinen Mutual Pension Insurance Company. The State bought approximately 81% and Ilmarinen approximately 19% of Fortum's Fingrid Oyj shares.

The sales price was EUR 325 million. Consequently, Fortum booked a gain of EUR 192 million, in addition to the share of profit for the first quarter amounting to EUR 8 million. This corresponded to approximately EUR 0.22 per share.

Fortum sold its holding in Fingrid Oyj as a result of the EU's fourth energy market package that calls for the separation of high-voltage transmission and power generation. The package entered into force in September 2009.

According to a deal signed with Imatran Seudun Sähkö on 20 December 2011, Imatran Seudun Sähkö acquired Distribution's Estonian subsidiary Fortum Elekter. In connection with the agreement, Distribution also sold its ownership in Imatran Seudun Sähkö Oy. The closing was made in the beginning of January, 2012. This is a step to focus more on the operations in the Nordic countries.

6 EMPLOYEES

Fortum's operations are mainly based in the Nordic countries, Russia, Poland and the Baltic countries. The total number of employees at the end of 2011 was 10,780 (2010: 10,585).

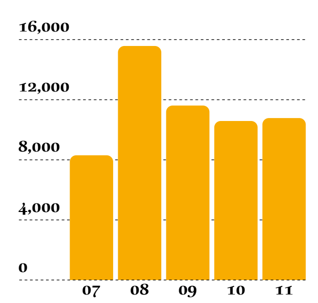
The increase in employees is related mainly to the Heat division's acquisition of two Polish power and heat companies. At the end of 2011, the Power division had 1,847 (2010: 1,819) employees, the Heat division 2,504 (2010: 2,394), the Russia division 4,379 (2010: 4,294), Distribution 898 (2010: 962), Electricity Sales 519 (2010: 525) and Other 633 (2010: 591).

The number of employees in the parent company, Fortum Oyj, at year end totalled 315 (2010: 295).

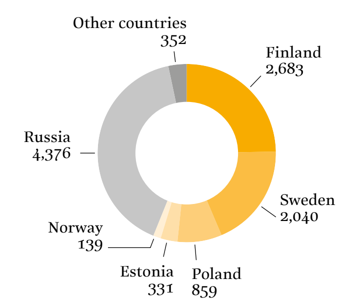
	2011	2010	2009
Number of employees, 31 Dec	10,780	10,585	11,613
Average number of employees	11,010	11,156	13,278
Total amount of employee costs, EUR million	529	507	495

For further details of group personnel see Note 14 Employee costs and management remuneration on page 68 of the Consolidated financial statements and on page 124, Remuneration.

NUMBER OF EMPLOYEES



EMPLOYEES BY AREA



7 EVENTS AFTER THE BALANCE SHEET DATE

There have been no material events after the balance sheet date.

8 OUTLOOK

8.1 Key drivers and risks

Fortum's financial results are exposed to a number of strategic, 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 CO_2-emissions allowance prices as well as the hydrological situation.

The global economic uncertainty and Europe's sovereign-debt crisis weaken the outlook for economic growth and recovery, especially in the Euro zone. This, in combination with a stronger hydrological situation in the Nordic region, could put downward pressure on the Nordic wholesale price for electricity in the short to medium term. In the Russian business, the key factors are the regulation around electricity and capacity markets and operational risks related to the investment programme. Increased volatility in exchange rates due to financial turbulence might have both translation and transaction effects on Fortum's financials especially through the SEK and RUB.

For further details on Fortum's risks and risk management, see Risk management section of the Operating and financial review on page 21 and Note 3 Financial risk management on page 52 in the Consolidated financial statements.

8.2 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 in electricity consumption to be about 0.5%, while the growth rate for the nearest years will largely be determined by the macroeconomic development in Europe and especially in the Nordic countries.

Whereas the price of oil increased during the fourth quarter, coal and gas prices decreased. The CO_2 emissions allowance (EUA) prices continued to decline due to the prolonged financial and economic uncertainty in Europe as well as the uncertainty of future carbon reduction policies. Electricity forward prices decreased both in the Nordic countries and in Germany due to lower fuel and EUA prices. The Nordic prices declined also as a result of rising water reservoir levels in Scandinavia.

In late January 2012, the electricity forward price in Nord Pool for the rest of 2012 was around EUR 40 per MWh. The electricity forward price for 2013 was around EUR 42 per MWh and for 2014 around EUR 42 per MWh. In Germany, the electricity forward price for the rest of the year was around EUR 49 per MWh and EUR 53 per MWh for 2013. At the same time, the future quotations for coal (ICE Rotterdam) for the rest of 2012 were around USD 111 per tonne and the market price for CO_2 emissions allowances (EUA) for 2012 was about EUR 8 per tonne.

In late January 2012, Nordic water reservoirs were about 12 TWh above the long-term average and 40 TWh above the corresponding level of 2011.

8.3 Russia

The Russian wholesale power market was liberalised from the beginning of 2011. All generating companies continue to sell a part of their electricity and capacity equalling the consumption of households and a special group of consumers (Northern Caucasus Republic, Tyva Republic, Buryat Republic) under regulated prices.

The new rules for the capacity market starting from 2011 have been approved by the Russian Government. The generation capacity built after 2007 under government capacity supply agreements (CSA – "new capacity") receive guaranteed 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 competitive capacity selection (CCS – "old capacity").

In December 2010, the first CCS for the year 2011 was held in accordance with the new rules of the capacity market. The new rules stipulate that capacity payments under CCS are made according to actual capacity instead of the previously used installed capacity. This decreased the old capacity payments for CHP power plants, especially during the summer period due to the temperature constraints. The capacity selection for 2012 was held in September 2011. The majority of Fortum's power plants were selected in the auction, with a price level close to the level received in 2011. Approximately 4% (120 MW) of the old capacity was not allowed to participate in the selection due to tightened minimal technical requirements. It will, however, receive capacity payments at the capacity market price for two additional years.

Upon completion, OAO Fortum's new capacity will be a key driver for solid earnings growth in Russia as it will bring income from new volumes sold and receive considerably higher capacity payments than the old capacity. However, the payment differs, depending on age, the location, size and type of the plants as well as seasonality and availability. The return for the new capacity is guaranteed, but could vary somewhat because it is linked to the Russian Government long-term bonds with 8 to 10 years maturity. After completing the ongoing investment programme, Fortum targets a positive economic value added for the Russia division.

In light of the improved demand and the development of the Russian capacity market, Fortum has accelerated the schedule of OAO Fortum's committed investment programme and is planning to commission the last new units by the end of 2014. The value of the remaining part of the investment programme, calculated at exchange rates prevailing at the end of December 2011, is estimated to be approximately EUR 0.9 billion as of January 2012.

In 2012, the new units Nyagan 1 and Nyagan 2 will be commissioned.

The Russian Government decided that gas prices will increase beginning 1 July 2012; the increase is expected to be 15%. On the other hand, prices for regulated electricity sales, heat sales and CCS capacity income will be indexed at rates lower than in 2011.

8.4 Capital expenditure and divestments

Fortum currently expects its capital expenditure in 2012 to be around EUR 1.6–1.8 billion and in 2013–2014 around EUR 1.1–1.4 billion, excluding potential acquisitions. The main reason for the high capital expenditures in 2012 is the acceleration of Fortum's Russian investment programme. The annual maintenance capital expenditure is estimated to be about EUR 500–550 million in 2012, approximately at the level of depreciation.

8.5 Taxation

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

8.6 Hedging

At the end of December 2011, approximately 65% of the Power division's estimated Nordic power sales volume was hedged at approximately EUR 48 per MWh for the 2012 calendar year. The corresponding figures for the 2013 calendar year are about 40% at approximately EUR 46 per MWh.

The hedge price for Fortum Power division's Nordic generation excludes hedging of 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.

8.7 Profitability

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

The ongoing Swedish nuclear investment programmes over several years will enhance safety, improve availability and increase the capacity of the current nuclear fleet. The implementation of the investment programmes might affect availability. Fortum's power procurement costs from co-owned nuclear companies are affected by these investment programmes; however, the level of operating costs is expected to stabilise during the implementation period.

Fortum believes that additional safety criteria may be introduced for new and existing nuclear power plants. In Finland, the budget proposal for 2012 does not include windfall or uranium taxes – the implementation of which the Government proposed to investigate in its programme published in June 2011.

According to the legislation in Sweden, nuclear waste fees and guarantees are updated at regular intervals. At the end of December the Government decided upon fees and guarantees for the coming period of 2012–2014. The impact on Fortum's comparable operating profit is estimated to be approximately EUR −15 million per year in 2012–2014.

9 RESEARCH AND DEVELOPMENT

Sustainability is at the core of Fortum's strategy, and Fortum's research and development activities enable environmentally benign energy solutions.

In 2011, a strong focus in R&D was on understanding the potential of various solar energy technologies. In addition, Fortum teamed up with partners in large programmes to develop smart grid technologies, sustainable urban solutions, and new integrated CHP concepts. Nuclear R&D continued to be the largest and most valuable part of Fortum's R&D portfolio.

The growth and potential of solar energy and, in particular, price development of solar photovoltaic (PV) modules were analysed carefully in Fortum in 2011. The decision was made to go from the R&D and monitoring mode to the development of the basis for a potential new business for Fortum.

In 2011, Fortum and Seabased AB signed an agreement on the construction of a joint wave power park in Sotenäs, Sweden. After completion, the wave power park will be the world's largest, full-scale demonstration project of its kind. In addition, Fortum and the French naval defence and marine energy company DCNS signed a Letter of Intent on cooperation in the field of wave power research and development in France.

The Cleen Smart Grids and Energy Markets programme also had an active year. Fortum participated in successful piloting activities on reliability improving electricity grid automation concepts and sustainable urban living solutions with partners such as ABB, Skanska and KONE.

The pre-study for the Smart Grid project in Stockholm Royal Seaport, investigating sustainable City solutions, was finalised during the spring of 2011. It confirmed that the various parts of the energy system can be connected in the way originally envisaged, which enables the end customer to participate more actively in the electricity market. The pre-study was managed by Fortum in a consortium of 13 different partners. The project has proceeded to partner negotiations and financing, with planning for the next phase of implementation and tests.

In integrated CHP concepts, work continued actively and concrete milestones were reached in the areas of pyrolysis, torrefaction and the potential of integrating a CHP plant with bio-ethanol production.

Activities within Fortum's strong nuclear R&D portfolio progressed from development towards implementation. Examples include development activities leading towards the use of higher burn up nuclear fuel and antimony-free pump seal materials at the Loviisa nuclear power plant. The incident at the Fukushima nuclear plant increased the focus on nuclear safety also within nuclear R&D, and the contents and priorities of all Fortum nuclear R&D programmes have been reviewed. In 2011, Fortum's R&D expenditure was EUR 38 million (2010: 30) or 0.6% of sales (2010: 0.5%) and 1.1% of total expenses (2010: 0.8%).

	2011	2010	2009
R&D expenditure, EUR million	38	30	30
R&D expenditure, % of sales	0.6	0.5	0.5
R&D expenditure, % of total expenses	1.1	0.8	0.9

10 SUSTAINABILITY

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

SUSTAINABILITY GROUP LEVEL INDICATORS

	Target	2011	2010	2009
Specific CO_2 emission from power generation in the EU (g/kWh), 5 year average	80	67	69	59
Specific CO_2 emission from total energy production (g/kWh), 5 year average	200	169	157	–
Total efficiency of combustion (%), 5 year average	70	68	69	–
ISO14001 certification (%)				
Total Fortum	100	95	86	87
Europe	100	99	98	99

In 2011, Fortum received a number of recognitions for its sustainability work. The company was listed in the Dow Jones Sustainability Index World for the ninth consecutive year, and was the only Nordic utility in the index. The company was ranked the best utility company in the world in the Carbon Disclosure Leadership Index. Fortum was awarded Bronze Class in the Sustainability Yearbook 2011 by the SAM Group and given a Prime Status (B–) rating by oekom Research AG. Fortum is also included in the STOXX Global ESG Leaders indices and in the NASDAQ OMX and GES Investment Service's new OMX GES Sustainability Finland index.

10.1 Economic responsibility

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

Our operations have both direct and indirect economic impacts. Fortum's capital expenditure excluding acquisitions in 2011 was EUR 1,408 million, of which 255 million for CO_2 free production. The biggest investments were made in Russia, EUR 670 million and in Sweden, EUR 392 million.

85%
Fortum's CO_2-free power production within EU

65%
Fortum's CO_2-free power production, including Russia

Fortum's target 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) indicators for reporting economic responsibility.

10.2 Environmental responsibility

Fortum's environmental responsibility emphasises mitigation of climate change, efficient use of resources and management of impacts of our energy production, distribution and supply chain. Our know-how in CO_2-free hydro and nuclear power production and in energy-efficient CHP production is highlighted in environmental responsibility. Fortum's Group-level environmental targets are related to carbon-dioxide emissions, energy efficiency and environmental management system certifications. In addition, the divisions have defined their own environmental targets related to their respective business. The achievements of the environmental targets are monitored through monthly, quarterly and annual reporting.

Fortum's climate targets over the next five years comprise specific CO_2 emissions from power generation in the EU of below 80 grams per kilowatt-hour (g/kWh) and specific CO_2 emissions from the total energy production (electricity and heat) of below 200 g/kWh, covering all operating countries. Both targets are calculated as a five-year average.

At the end of December 2011, the five-year average for specific CO_2 emissions from power generation in the EU was at 67 g/kWh and the specific CO_2 emissions from the total energy production was at 169 g/kWh, both better than the target level. Fortum's total CO_2 emissions 2011 amounted to 23.5 (2010: 25.3) million tonnes (Mt), of which 8.0 Mt (2010: 9.7) were within the EU's emissions trading scheme (ETS).

In 2011, approximately 65% (2010: 66%) of the power generated by Fortum was CO_2-free. The corresponding figure for Fortum's generation within the EU was 85% (2010: 86%).The decreased share of CO_2-free power is mainly due to the higher weight of Russian operations in the production portfolio.

Overall efficiency of fuel use was 68% as a five-year average, the target is >70%. In 2011, 99% of all Fortum's operations in the EU had ISO 14001 environmentally certification. In December, also OAO Fortum's operations in Russia passed the first phase of the ISO 14001 certification audit.

10.3 Social responsibility

In the area of social responsibility, Fortum's innovations and the secure supply of low-carbon power and heat support the development of society and increase well-being. Good corporate citizenship and ensuring a safe working environment for all employees and contractors at Fortum sites are emphasised. The Group-level target has been defined for occupational safety. In addition to ISO 14001, the goal is to have OHSAS 18001 certification for all operational management systems. In 2011, the Group-level lost workday injury frequency (LWIF) improved and was at a good level at 1.6 (2010: 2.4). Unfortunately, a Fortum contractor suffered a fatal accident in Sweden in December. Fortum's safety target is to reach a LWIF level that is less than one per million working hours for its own personnel. This reflects the Group's zero tolerance for accidents.

Further details on Sustainability are presented in the separate Sustainability Report.

CO_2 EMISSIONS

Million tonnes	2011	2010	2009	Change 11/10
Total emissions	23.5	25.3	21.8	–7%
Emissions subject to ETS	8.0	9.7	7.7	–14%
Free emission allocation	6.8	5.6	5.5	21%
Emissions in Russia	14.7	14.6	13.8	1%

Risk management

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

1 RISK MANAGEMENT FRAMEWORK

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

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

1.1 Objective

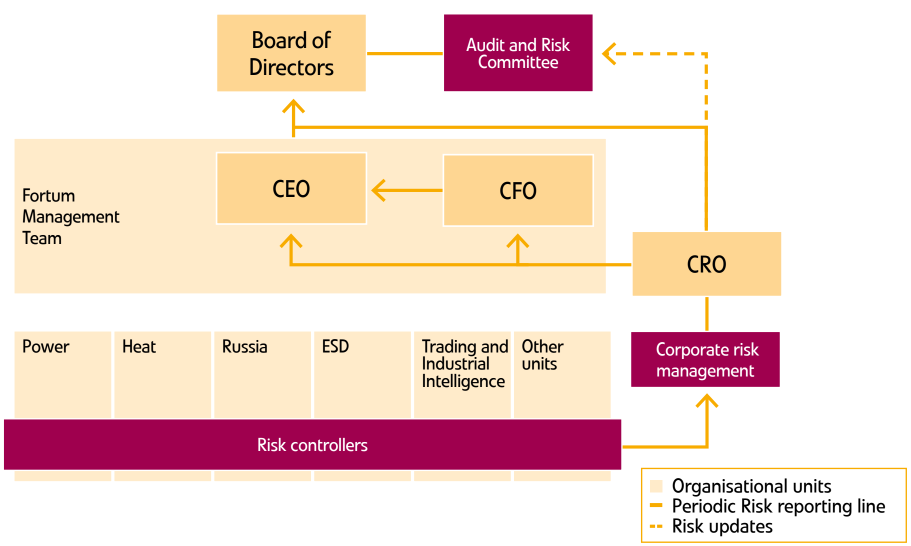
The objective of risk management within Fortum is to enable the execution of the corporate strategy, to support the achievement of agreed financial targets and to avoid unwanted operational events.

1.2 Policy

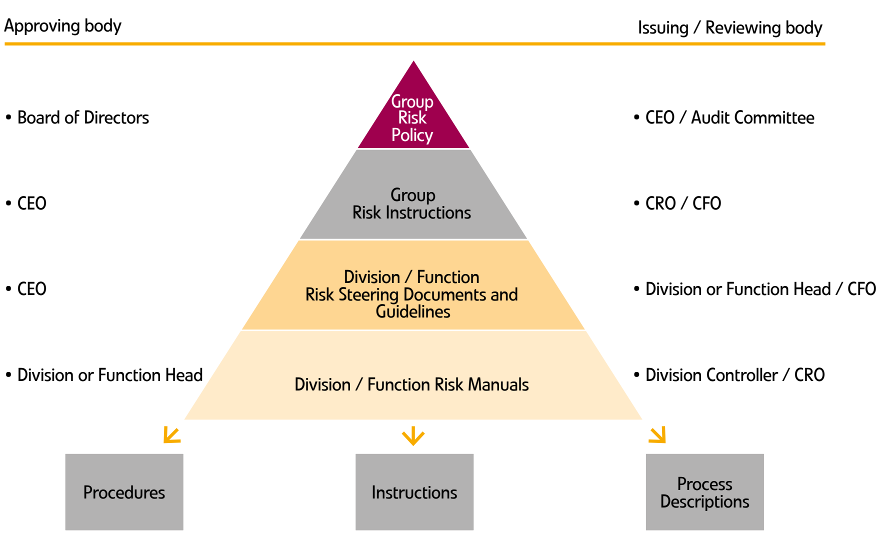
Fortum's Board of Directors approves the Group Risk Policy which sets the objective, principles and division of responsibilities for risk management activities within the Group as well as defines the overall risk management process.

The CEO approves appendices to the Group Risk Policy which include instructions for managing commodity market risks, counterpart risks, operational risks, financial risks and insurances. Corporate Treasury is

FORTUM'S RISK REPORTING STRUCTURE



CORPORATE RISK POLICY STRUCTURE

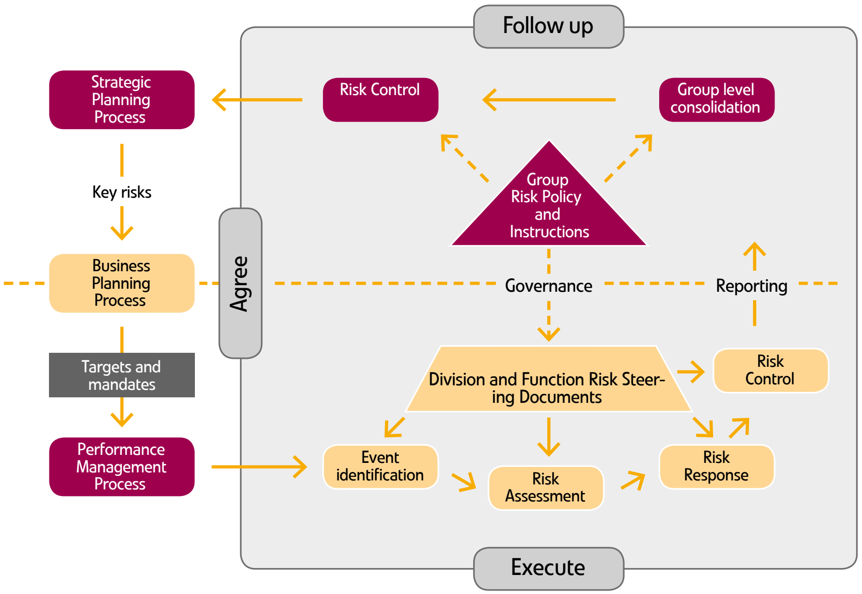


responsible for managing the Group's currency, interest rate and liquidity and refinancing risks as well as for insurance management. Corporate Credit Control is responsible for assessing and consolidating the Group's exposure to counterpart risk, monitoring the creditworthiness of counterparts and for approving counterpart 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.

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

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

FORTUM'S RISK MANAGEMENT PROCESS



2 RISK FACTORS

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

2.1 Strategic risks
Fortum's strategy is based on three areas of focus:
- Leverage the strong Nordic core;
- Create solid earnings growth in Russia;
- Build platform for future growth.

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

The Board of Directors defines Group's objectives for hedging and CEO defines the minimum level of EBITDA to be achieved

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

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

2.1.2 Political and regulatory risks

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

Nordic / EU

Nordic / EU Policy harmonisation, infrastructure development and integration of the Nordic electricity market towards continental Europe depend partly on the actions of authorities. Changes in the market environment and regulation could endanger the implementation of the market-driven development of the electricity market. Fortum promotes market-driven development by maintaining an active dialogue with all stakeholders.

Regulatory bodies and competition authorities regularly perform analysis, investigations and inquiries which might lead to changes in business conditions. Examples of on-going discussions which may affect Fortum's operations are third party access to heat distribution networks in Sweden, windfall taxation, taxation on uranium in Finland, new legislation regarding nuclear safety requirements, changes to electricity distribution regulation in Finland and Sweden, changes to regulated heat tariffs and expansion of banking regulation to include commodity trading.

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

Russia

Emerging markets countries, such as Russia, are subject to greater political, economic and social uncertainties than countries with more developed institutional structures, and the risk of loss resulting from changes in law, economic and social upheaval and other factors may be substantial.

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

2.1.3 Legal and compliance risks

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

Inadequacies in the legal systems and law enforcement mechanisms in Russia and certain other of the emerging markets expose Fortum to risk of loss as a result of criminal or abusive practices by competitors, suppliers, or contracting parties.

FORTUM RISK MAP

Fortum's ability to operate in Russia may also be adversely affected by difficulties in protecting and enforcing its rights in disputes with its contractual partners or other parties, for example concerning regulatory influence on business and unfair market conditions, and also by future changes to local laws and regulations.

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

Compliance with the competition legislation is an important area for Fortum. Fortum has also enhanced Compliance risk management by establishing a process to systematically and separately identify and mitigate compliance risks linked to the operational risk framework. This process aims to capture also potential bribery risks.

2.2 Commodity market risks

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

Fortum hedges its exposure to commodity market risks in accordance with the Hedging Guidelines. Risk taking is limited by risk mandates including volumetric limits, Profit-at-

Risk limits and stop-loss limits. Risk mandates include a minimum EBITDA for the Group, set by the CEO, which aims to ensure that Fortum can deliver on its financial commitments without worsening its financial position.

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

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

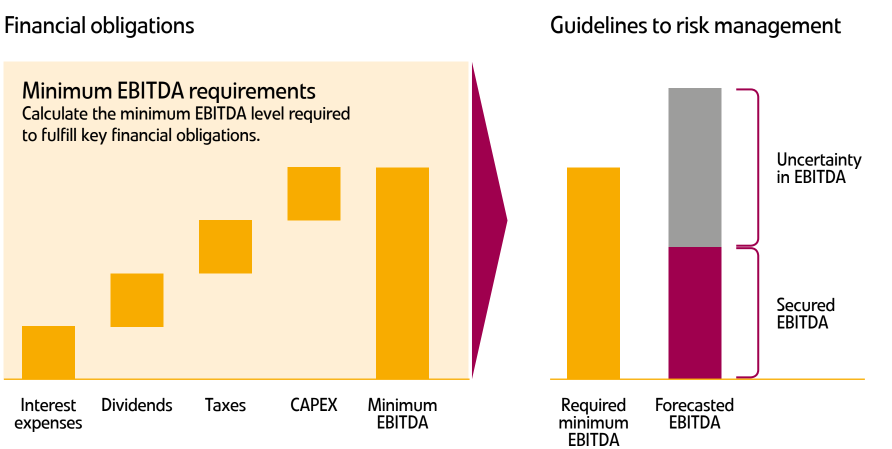
For further information on hedge ratios, exposures, sensitivities and outstanding derivatives contracts, see Note 3 Financial risk management on page 52.

2.2.1 Electricity prices and volumes 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, CO_2 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.

CORPORATE VIEW ON MINIMUM EBITDA MANDATE



Electricity price and volume risks are hedged by entering into electricity derivatives contracts, primarily on the Nordic power exchange, Nasdaq OMX (Nord Pool). The objective of hedging is to reduce the effect of electricity price volatility on earnings and cash flows, and to secure a minimum level of earnings and cash flow which ensures financial commitments can be met. There are hedging strategies covering several years in the short to medium term which are executed by the trading unit within set mandates. These hedging strategies are continuously evaluated as electricity and other commodity market prices, the hydrological balance and other relevant parameters change.

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

2.2.2 Emission and Environmental value risks

The European Union has established an emissions trading scheme to reduce the amount of CO_2 emissions. The CO_2 emission trading scheme enhances the integration of the Nordic market with the rest of Europe. In addition to the emissions trading scheme, there are other trading schemes in environmental values in place in Sweden, Norway and Poland. There is currently no trading scheme in Russia for emissions or other environmental values. The main factor influencing the prices of CO_2 allowances and other environmental values is the supply and demand balance.

Part of Fortum's power and heat generation is subject to requirements of trading schemes. Fortum manages its exposure to these prices and volumes through the use of derivatives, such as CO_2 forwards, and by ensuring that the costs of allowances are taken into account during production planning.

2.2.3 Fuel prices and volumes risks

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

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

Exposure to fuel prices is to some extent limited because of Fortum's flexible generation possibilities which allow for switching between different

The main drivers for operational risk management and internal controls are efficiency and continuous improvement

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.

2.3 Financial Risks

2.3.1 Liquidity and refinancing risks

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

In order to manage these risks, Fortum maintains a diversified financing structure in terms of debt maturity profile, debt instruments and geographical markets. Fortum manages liquidity and refinancing risks through a combination of cash positions and committed credit facility agreements with its core banks. Fortum shall at all times have access to cash, bank deposits and unused committed credit facilities including overdrafts, to cover all loans maturing within the next twelve-month period.

2.3.2 Interest rate risks

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

2.3.3 Currency risks

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

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

2.4 Counterpart risks

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

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 counterparts. Such contracts are limited to high-credit-quality counterparts active on the financial or commodity markets.

Due to the financing needs and management of liquidity, Fortum has counterpart 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 counterparts, 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 counterpart risk, Fortum has well established routines and processes to identify, assess and control counterpart 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 counterpart exposures. Annual credit reviews are performed manually for all larger approved limits. Each division or Corporate Function is responsible for ensuring that exposures remain within approved limits. Mitigation of counterpart 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 counterpart exposures against the approved limits.

2.5 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.

2.5.1 Hydro power

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

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

2.5.2 Nuclear power

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

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

As the operator of the Loviisa power plant, Fortum has a statutory liability insurance policy of approximately EUR 230 million per nuclear incident. In 2012, a temporary law will come into place in Finland whereby the nuclear liability insured sum increases to approximately EUR 680 MEUR (600M SDR). Similar insurance policies are in place for the operators where Fortum has a minority interest.

Decisions have been taken in both Finland and Sweden to renew the current nuclear liability legislation towards the Paris and Brussels convention. The new legislation will come into force earliest in 2013 in Finland and Sweden. The changes in the new national legislation consist of a liability on plant operators covering damages of up to EUR 700 million in Finland and in Sweden up to EUR 1,200 per nuclear incident, which should be covered by insurance or other form of financial guarantee, as well as a strict and unlimited liability for the plant operators in each respective country.

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

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

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

2.5.3 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.

2.5.4 Environmental, health and safety risks

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.

2.5.5 IT and information security risks

Information security risks are managed centrally by the Corporate Security and IT functions. Business-specific risks are managed within the divisions and Corporate Units. Group policies define guidelines and 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.

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	2011	2010	2009
Earnings per share	1.99	1.46	1.48
Cash flow per share	1.82	1.62	2.55
Equity per share	10.84	9.24	9.04
Dividend per share	1.00 [1]	1.00	1.00
Payout ratio, %	50.3 [1]	68.5	67.6
Dividend yield, %	6.1 [1]	4.4	5.3

[1] *Board of Directors' proposal for the Annual General Meeting 11 April 2012.*

For full set of share key figures 1998–2011, see page 99.

1 SHARE PRICE PERFORMANCE AND VOLUMES

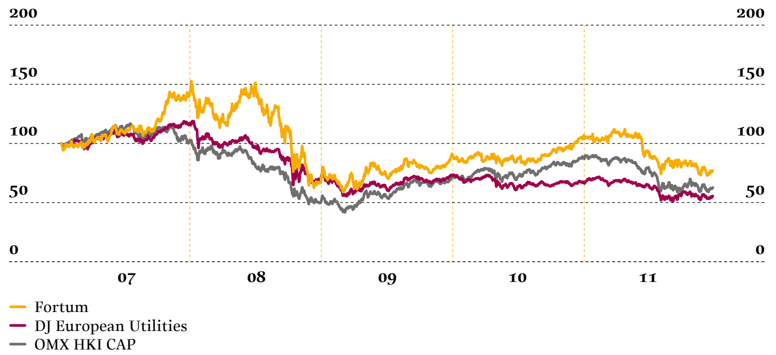
Fortum's share has outperformed its European utility peers during the last five years. Fortum's share price has depreciated approximately 23% during the last five years, while Dow Jones European Utility Index has decreased 44% and OMX Helsinki Cap index has decreased 37%.

During 2011 Fortum's share price depreciated approximately 26%, while Dow Jones European Utility index decreased 17% and OMX Helsinki Cap index decreased 28%.

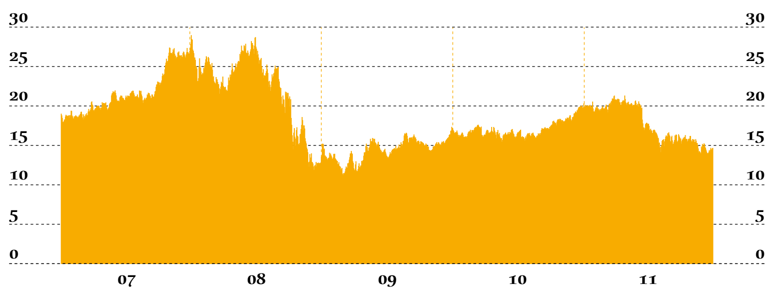
During 2011, a total of 524.9 million (2010: 493.4) Fortum Corporation shares, totalling EUR 10,379 million, were traded on the NASDAQ OMX Helsinki Ltd. The highest quotation of Fortum Corporation shares during the reporting period was EUR 24.09, the lowest EUR 15.53, and the volume-weighted average EUR 19.76. The closing quotation on the last trading day of the year 2011 was EUR 16.49 (2010: 22.53). Fortum's market capitalisation, calculated using the closing quotation of the last trading day of the year, was EUR 14,649 million (2010: 20,015).

In addition to the NASDAQ OMX Helsinki Ltd., Fortum shares were traded on several alternative market places, for example at Chi-X, BATS, Boat and Turquoise. The total volume for all trades, including also the primary market place, was approximately 1,058 million shares with a turnover of approximately EUR 21,093 million in 2011. In 2011, alternative market places accounted for approximately 50% of the total amount of Fortum Corporation shares traded.

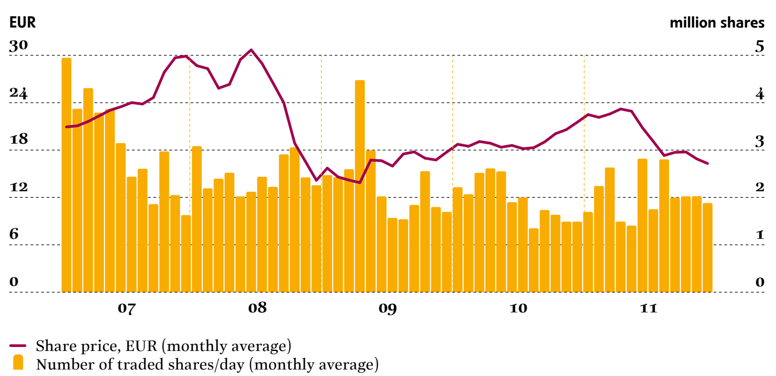
SHARE QUOTATIONS 2007–2011, Index 100 = quote on 2 January 2007



MARKET CAPITALISATION 2007–2011, EUR billion



SHARE TRADING 2007–2011



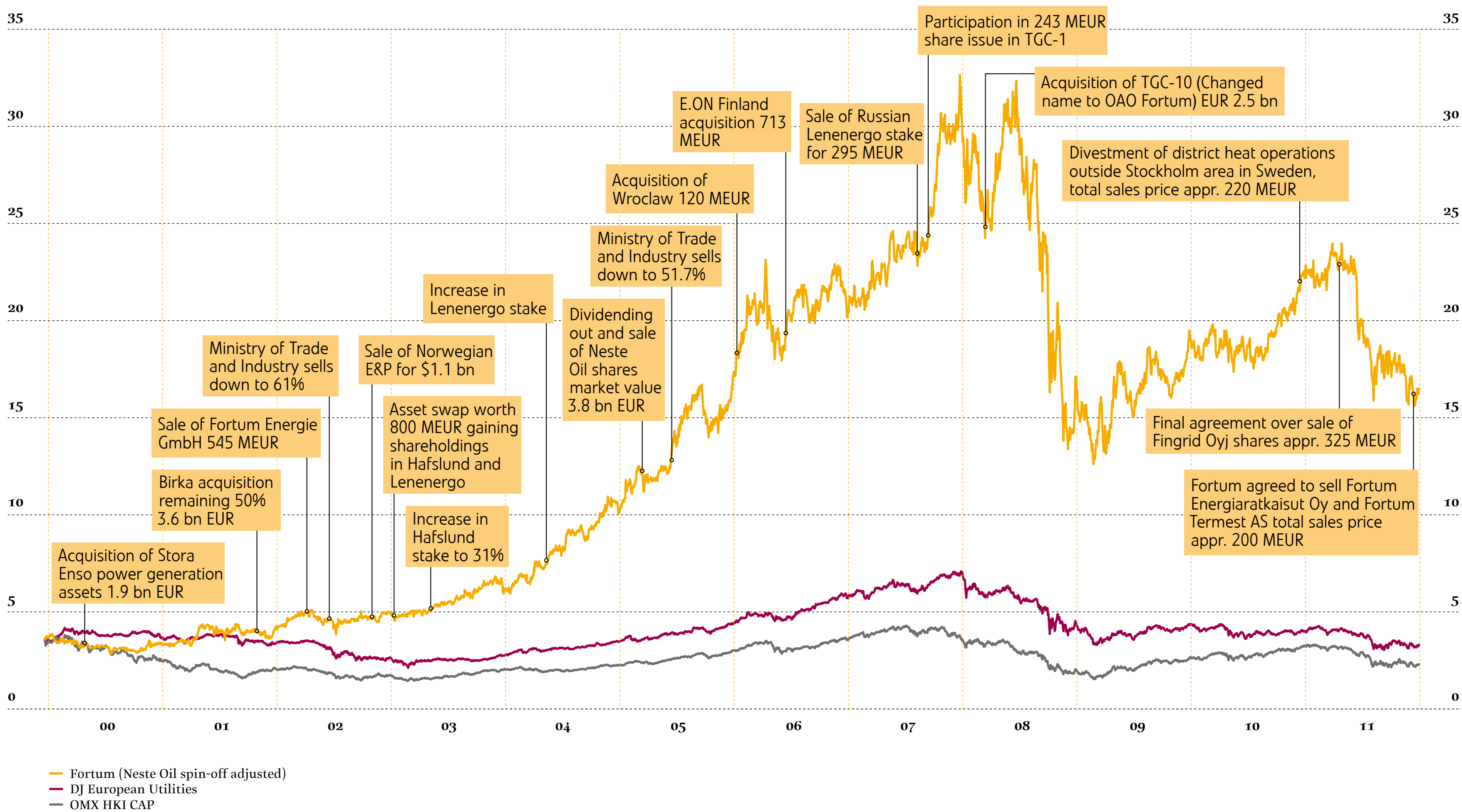
2 SHAREHOLDER VALUE

Fortum has continuously carried out structural and operational development according to its strategy. Since the year 2000 Fortum has made acquisitions totalling EUR 11 billion and divestments totalling EUR 8 billion. Since 2000 the share price has increased by approximately 355%.

3 SHARE CAPITAL

Fortum has one class of shares. By the end of 2011, 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 2011 Fortum Corporation's share capital, paid in its entirety and

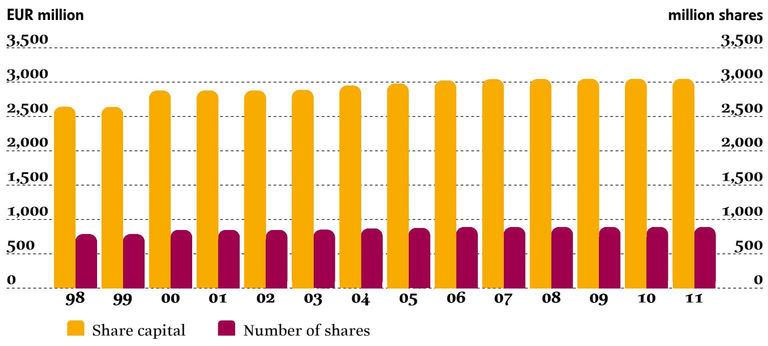
SHARE PRICE PERFORMANCE, EUR



entered in the trade register, was EUR 3,046,185,953.00.

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

SHARE CAPITAL 1998–2011



SHARE CAPITAL 1998–2011

	Number of shares	Share capital, EUR
Fortum established on 7 February 1998	500,000	1,681,879
Rights issue in 1998	782,282,635	2,631,409,886
Employee issue in 1998	2,000,000	6,727,517
31 December 1998	**784,782,635**	**2,639,819,282**
31 December 1999	**784,782,635**	**2,639,819,282**
Script issue in 2000	–	28,441,677
Rights issue in 2000	60,825,940	206,808,196
31 December 2000	**845,608,575**	**2,875,069,155**
31 December 2001	**845,608,575**	**2,875,069,155**
Subscriptions with options in 2002		
– 1999 bond loan with warrants	148,380	504,492
– 1999 management share option scheme	3,000	10,200
31 December 2002	**845,759,955**	**2,875,583,847**
Subscriptions with options in 2003		
– 1999 bond loan with warrants	159,520	542,368
– 1999 management share option scheme	2,913,000	9,904,200
31 December 2003	**848,832,475**	**2,886,030,415**
Subscriptions with options in 2004		
– 1999 bond loan with warrants	4,560,730	15,506,482
– 1999 management share option scheme	7,154,000	24,323,600
– 2002 A share options scheme for key employees	6,536,700	22,224,780
31 December 2004	**867,083,905**	**2,948,085,277**
Subscriptions with options in 2005		
– 1999 bond loan with warrants	1,284,370	4,366,858
– 1999 management share option scheme	1,698,000	5,773,200
– 2001 A share options scheme	1,636,350	5,563,590
– 2002 A share options scheme	3,591,400	12,210,760
31 December 2005	**875,294,025**	**2,975,999,685**
Subscriptions with options in 2006		
– 2001 A share options scheme	3,026,200	10,289,080
– 2001 B share options scheme	5,360,133	18,224,452
– 2002 A share options scheme	516,800	1,757,120
– 2002 B share options scheme	4,856,488	16,512,059
Cancellation of own shares	–1,660,000	–
31 December 2006	**887,393,646**	**3,022,782,396**
Subscriptions with options in 2007		
– 2001 A share options scheme	274,920	934,728
– 2001 B share options scheme	1,339,867	4,555,548
– 2002 A share options scheme	122,100	415,140
– 2002 B share options scheme	3,462,525	11,772,585
Cancellation of own shares	–5,910,000	–
31 December 2007	**886,683,058**	**3,040,460,397**
Subscriptions with options in 2008		
– 2002 B share options scheme	955,022	3,247,075
31 December 2008	**887,638,080**	**3,043,707,472**
Subscriptions with options in 2009		
– 2002 B share options scheme	728,965	2,478,481
31 December 2009	**888,367,045**	**3,046,185,953**
31 December 2010	**888,367,045**	**3,046,185,953**
31 December 2011	**888,367,045**	**3,046,185,953**

4 SHAREHOLDERS

At the end of 2011, 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.

The proportion of nominee registrations and direct foreign shareholders decreased to 28.3% (2010: 30.2%).

SHAREHOLDERS 31 DECEMBER 2011

Shareholders	No. of shares	Holding %
Finnish State	450,932,988	50.76%
Varma Mutual Pension Insurance Company	15,498,362	1.74%
Ilmarinen Mutual Pension Insurance Company	12,684,050	1.43%
The Social Insurance Institution of Finland, KELA	7,195,896	0.81%
The City of Kurikka	6,203,500	0.70%
The State Pension Fund Finland	5,728,500	0.65%
Mandatum Life Insurance Company	5,442,294	0.61%
OP-Delta FUND	2,925,000	0.33%
Mutual Insurance Company Pension Fennia	1,978,707	0.22%
The Government Pension Fund Norway	1,815,571	0.21%
The Society of Swedish Literature in Finland	1,809,400	0.20%
Svenska Handelsbanken, Finland	1,582,177	0.18%
Nominee registrations and direct foreign ownership	251,412,875	28.30%
Other shareholders in total	123,157,725	13.86%
Total number of shares	**888,367,045**	**100.00%**

By shareholder category	% of total amount of shares
Finnish shareholders	
Corporations	1.53
Financial and insurance institutions	3.35
General government	57.34
Non-profit organisations	1.79
Households	7.69
Non-Finnish shareholders	28.30
Total	**100.00**

BREAKDOWN OF SHARE OWNERSHIP 31 DECEMBER 2011

By number of shares owned	No. of shareholders	% of shareholders	No. of shares	% of total amount of shares
1–100	26,757	25.60	1,610,558	0.18
101–500	43,249	41.39	11,558,052	1.30
501–1,000	18,110	17.33	13,018,251	1.47
1,001–10,000	15,385	14.72	38,719,912	4.36
10,001–100,000	878	0.84	21,020,557	2.37
100,001–1,000,000	98	0.09	31,120,021	3.50
1,000,001–10,000,000	21	0.02	49,511,856	5.57
over 10,000,000	3	0.00	479,115,400	53.93
	104,496	**100.00**	**645,674,607**	**72.68**
Unregistered/uncleared transactions on 31 December			75,696	0.01
Nominee registrations			242,616,742	27.31
Total			**888,367,045**	**100.00**

5 MANAGEMENT INTERESTS 31 DECEMBER 2011

At the end of 2011, the President and CEO and other members of the Fortum Management Team owned 253,276 shares (2010: 208,333) representing approximately 0.03% of the total shares in the company.

A full description of Fortum's long term incentive schemes is shown in Note 31 Employee bonus system, personnel fund and incentive schemes on page 85. See also Note 14 Employee costs and management remuneration for details on the President and CEO and other members of the Fortum Management Team's shareholdings and interests in long term incentive schemes on page 68.

6 AUTHORISATIONS FROM THE ANNUAL GENERAL MEETING 2011

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

7 DIVIDEND POLICY

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

8 DIVIDEND DISTRIBUTION PROPOSAL

The parent company's distributable equity as of 31 December 2011 amounted to EUR 4,620,804,659.85. After the end of the financial period there have been no material changes in the financial position of the Company.

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a dividend of EUR 1.00 per share for 2011, totalling approximately EUR 888 million based on the number of registered shares as of 31 January 2012. The Annual General Meeting will be held on 11 April 2012 at 14:00 EET at Finlandia Hall in Helsinki.

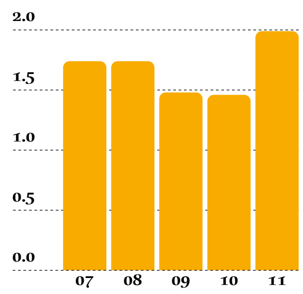
Dividend policy: Fortum aims to pay a dividend that corresponds to an average payout ratio of 50% to 60%

Fortum's activities in capital markets during 2011

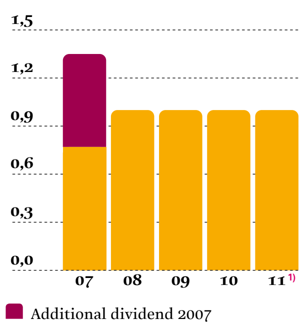
Fortum's Investor Relations (IR) activities cover equity and fixed-income markets to ensure full and fair valuation of the Company's shares, access to funding sources and stable bond pricing. Investors and analysts primarily in Europe and North America are met on a regular basis.

In 2011 Fortum met approximately 300 professional equity investors individually or in group meetings, whilst maintaining regular contact with equity research analysts at investment banks and brokerage firms. In addition, site visits were arranged for members of the investment community. During the year, IR and senior management gave approximately 10 presentations at investor conferences in Scandinavia and the United Kingdom.

EARNINGS PER SHARE, EUR



DIVIDEND PER SHARE, EUR



1) Board of Directors' proposal for the Annual General Meeting in April 2012.

Consolidated financial statements

Consolidated income statement

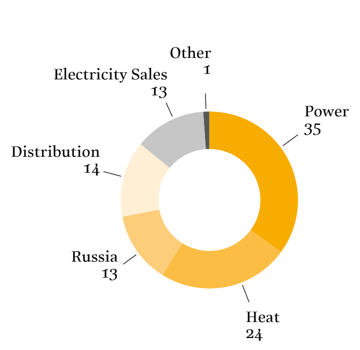
EUR million	Note	2011	2010
Sales	5	6,161	6,296
Other income	11	91	108
Materials and services	12	–2,566	–2,846
Employee benefit costs	14	–529	–507
Depreciation, amortisation and impairment charges	5, 15	–606	–563
Other expenses	13	–749	–655
Comparable operating profit	5	**1,802**	**1,833**
Items affecting comparability	6, 7	600	–125
Operating profit	5	**2,402**	**1,708**
Share of profit of associates and joint ventures	5, 24	91	62
Interest expense	16	–284	–197
Interest income	16	56	72
Fair value gains and losses on financial instruments	7, 16	5	12
Other financial expenses – net	16	–42	–42
Finance costs – net	16	–265	–155
Profit before income tax		**2,228**	**1,615**
Income tax expense	17	–366	–261
Profit for the period		**1,862**	**1,354**
Attributable to:			
Owners of the parent		1,769	1,300
Non-controlling interests		93	54
		1,862	**1,354**
Earnings per share (in EUR per share)	18		
Basic		1.99	1.46
Diluted		1.99	1.46

EUR million	2011	2010
Comparable operating profit	**1,802**	**1,833**
Non-recurring items (sales gains)	284	93
Changes in fair values of derivatives hedging future cash flow	344	–216
Nuclear fund adjustment	–28	–2
Operating profit	**2,402**	**1,708**

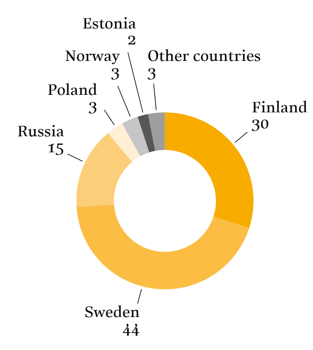
Higher contribution mainly from Territorial Generating Company 1 (TGC-1).

Increase mainly due to higher average interest rates 4.4% (2010: 3.4%) for debt including derivatives.

SALES BY SEGMENT, %



SALES BY COUNTRY, %



Consolidated statement of comprehensive income

EUR million	2011	2010
Profit for the period	**1,862**	**1,354**
Other comprehensive income:		
Cash flow hedges		
Fair value gains/losses in the period	299	–583
Transfers to income statement	480	1
Transfers to inventory/fixed assets	–23	–16
Tax effect	–195	151
Net investment hedges		
Fair value gains/losses in the period	2	–1
Tax effect	0	0
Available for sale financial assets		
Fair value losses in the period	–1	0
Exchange differences on translating foreign operations	–75	344
Share of other comprehensive income of associates	2	–69
Other changes	3	–16
Other comprehensive income for the period, net of tax	**492**	**–189**
Total comprehensive income for the year	**2,354**	**1,165**
Total comprehensive income attributable to:		
Owners of the parent	2,255	1,064
Non-controlling interests	99	101
	2,354	**1,165**

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

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.

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

Mainly fair value change in Hafslund ASA's shareholding in REC incl. translation differences, EUR 0 million (2010: –77).

Consolidated balance sheet

EUR million	Note	31 Dec 2011	31 Dec 2010
ASSETS			
Non-current assets			
Intangible assets	22	433	421
Property, plant and equipment	23	15,234	14,621
Participations in associates and joint ventures	24	2,019	2,161
Share in State Nuclear Waste Management Fund	35	653	625
Pension assets	37	60	62
Other non-current assets	25	69	72
Deferred tax assets	34	150	141
Derivative financial instruments	3	396	183
Long-term interest-bearing receivables	26	1,196	1,149
Total non-current assets		**20,210**	**19,435**
Current assets			
Inventories	27	528	387
Derivative financial instruments	3	326	148
Trade and other receivables	28	1,020	1,284
Bank deposits		–	271
Cash and cash equivalents		731	285
Liquid funds	29	731	556
Assets held for sale [1]	9	183	154
Total current assets		**2,788**	**2,529**
Total assets		**22,998**	**21,964**

[1] *Including cash balances of EUR 16 million (2010: 0).*

EUR million	Note	31 Dec 2011	31 Dec 2010
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	3,046	3,046
Share premium		73	73
Retained earnings		6,318	5,448
Other equity components		195	–357
Total		**9,632**	**8,210**
Non-controlling interests	32	529	532
Total equity		**10,161**	**8,742**
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	33	6,845	6,520
Derivative financial instruments	3	192	238
Deferred tax liabilities	34	2,013	1,725
Nuclear provisions	35	653	625
Other provisions	36	205	239
Pension obligations	37	26	20
Other non-current liabilities	38	465	471
Total non-current liabilities		**10,399**	**9,838**
Current liabilities			
Interest-bearing liabilities	33	925	862
Derivative financial instruments	3	219	1,207
Trade and other payables	39	1,265	1,265
Liabilities related to assets held for sale	9	29	50
Total current liabilities		**2,438**	**3,384**
Total liabilities		**12,837**	**13,222**
Total equity and liabilities		**22,998**	**21,964**

Consolidated statement of changes in total equity

		Share capital	Share premium	Retained earnings		Other equity components			Owners of the parent	Non-controlling interests	Total equity
EUR million	Note			Retained earnings and other funds	Translation of foreign operations	Cash flow hedges	Other OCI items	OCI items associated companies			
Total equity 31 December 2010		**3,046**	**73**	**5,726**	**–278**	**–419**	**0**	**62**	**8,210**	**532**	**8,742**
Net profit for the period				1,769					1,769	93	1,862
Translation differences					–74				–74		–74
Other comprehensive income				6		555		–1	560	6	566
Total comprehensive income for the period				1,775	–74	555	0	–1	2,255	99	2,354
Cash dividend	19			–888					–888		–888
Dividends to non-controlling interests									0	–21	–21
Changes due to business combinations	9			54			–2		52	–81	–29
Other changes				3					3		3
Total equity 31 December 2011		**3,046**	**73**	**6,670**	**–352**	**136**	**–2**	**61**	**9,632**	**529**	**10,161**
Total equity 31 December 2009		**3,046**	**73**	**5,329**	**–567**	**21**	**1**	**131**	**8,034**	**457**	**8,491**
Net profit for the period				1,300					1,300	54	1,354
Translation differences					289	3		14	306	55	361
Other comprehensive income				–15		–443	–1	–83	–542	–8	–550
Total comprehensive income for the period				1,285	289	–440	–1	–69	1,064	101	1,165
Cash dividend	19			–888					–888		–888
Dividends to non-controlling interests										–22	–22
Changes due to business combinations	9									–4	–4
Total equity 31 December 2010		**3,046**	**73**	**5,726**	**–278**	**–419**	**0**	**62**	**8,210**	**532**	**8,742**

Translation differences

Translation of financial information from subsidiaries in foreign currency is done using average rate for the income statement and end rate for the balance sheet. The exchange rate differences occurring from translation to EUR are booked to equity.

Translation differences impacted equity attributable to owners of the parent company with EUR –74 million during 2011 (2010: 306) including net effect from SEK, NOK and RUB amounting to EUR –63 million in 2011 (2010: 299).

For information regarding exchange rates used, see Note 10 Exchange rates on page 67. For information about translation exposure see Note 3.7 Interest rate risk and currency risk on page 56.

Cash flow hedges

The impact on equity attributable to owners of the parent from fair valuation of cash flow hedges, EUR 555 million (2010: –443), 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 –21 million (2010: –22) and in 2011 also changes due to business combinations which relate to the non-controlling interests in OAO Fortum.

Consolidated cash flow statement

EUR million	Note	2011	2010
Cash flow from operating activities			
Net profit for the period		**1,862**	**1,354**
Adjustments:			
Income tax expenses		366	261
Finance costs-net		265	155
Share of profit of associates and joint ventures		–91	–62
Depreciation, amortisation and impairment charges		606	563
Operating profit before depreciations (EBITDA)		**3,008**	**2,271**
Non-cash flow items and divesting activities		–726	124
Interest received		59	66
Interest paid		–298	–234
Dividends received		108	62
Other financial items and realised foreign exchange gains and losses		–245	–535
Taxes		–394	–355
Funds from operations		**1,512**	**1,399**
Change in working capital		101	38
Total net cash from operating activities		**1,613**	**1,437**
Cash flow from investing activities			
Capital expenditures	5, 22, 23	–1,285	–1,134
Acquisitions of shares		–62	–28
Proceeds from sales of fixed assets		15	7
Divestments of shares		492	147
Change in interest-bearing receivables		15	–94
Total net cash used in investing activities		**–825**	**–1,102**
Cash flow before financing activities		**788**	**335**
Cash flow from financing activities			
Proceeds from long-term liabilities		951	924
Payments of long-term liabilities		–365	–912
Change in short-term liabilities		–278	191
Dividends paid to the owners of the parent	19	–888	–888
Other financing items		–10	–25
Total net cash used in financing activities		**–590**	**–710**
Total net increase (+) / decrease (–) in liquid funds		**198**	**–375**
Liquid funds at the beginning of the year		**556**	**890**
Foreign exchange differences in liquid funds		–7	41
Liquid funds at the end of the year	29	**747**	**556**

Non-cash flow items includes mainly adjustments for unrealised fair value gains and losses on derivatives not qualifying for hedge accounting, nuclear related items and changes in provisions. Divesting activities includes reversals of sales gains and losses included in EBITDA. The actual proceeds for divestments, EUR 507 million for 2011 (2010: 154), are shown under cash flow from investing activities.

Other financial items and realised foreign exchange gains and losses includes realised foreign exchange gains and losses amounting to EUR –239 million (2010: –535), which mainly relates to the rollover of foreign exchange contracts hedging SEK-dominated loans to Fortum's Swedish subsidiaries. The major part of the forwards is entered into with short maturities i.e. less than twelve months.

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

Change in interest-bearing net debt

EUR million	2011	2010
Net debt 1 January	**6,826**	**5,969**
Foreign exchange rate differences	7	244
EBITDA	3,008	2,271
Paid net financial costs, taxes and adjustments for non-cash and divestment items	–1,496	–872
Change in working capital	101	38
Capital expenditures	–1,285	–1,134
Acquisitions of shares	–62	–28
Divestments	507	154
Change in interest-bearing receivables	15	–94
Dividends	–888	–888
Other financing activities	–10	–25
Net cash flow (– increase in net debt)	–110	–578
Fair value change of bonds and amortised cost valuation	80	35
Net debt 31 December	**7,023**	**6,826**

Liquid funds at the end of year 2011 include cash balances of EUR 16 million (2010: 0) related to assets held for sale.

ADDITIONAL CASH FLOW INFORMATION

CHANGE IN WORKING CAPITAL

EUR million	2011	2010
Change in interest-free receivables, decrease (+) / increase (–)	266	–161
Change in inventories, decrease (+) / increase (–)	–143	74
Change in interest-free liabilities, decrease (–) / increase (+)	–22	125
Total	**101**	**38**

Positive effect from change in working capital during 2011, EUR 101 million (2010: 38) is mainly due to decrease of trade receivables, which is partly offset by increase of fuel inventories.

CAPITAL EXPENDITURE

EUR million	Note	2011	2010
Capital expenditure	5, 22, 23	1,408	1,222
Change in not yet paid investments		–70	–43
Capitalised borrowing costs		–53	–45
Capital expenditure in cash flow		**1,285**	**1,134**

Capital expenditures increasing intangible assets and property, plant and equipment in balance sheet were EUR 1,408 million (2010: 1,222). Capital expenditure in cash flow EUR 1,285 million (2010: 1,134) are presented without not yet paid investments i.e. change in trade payables related to investments EUR 70 million (2010: 43) and capitalised borrowing costs EUR 53 million (2010: 45), which are presented in interest paid.

See also information about the investments by segments and countries in Note 5 Segment reporting on pages 62 and 64 and the investment projects by segment in Note 23.2 Capital expenditure on page 79.

ACQUISITION OF SHARES IN CASH FLOW

EUR million	Note	2011	2010
Acquisition of subsidiaries, net of cash acquired	8	44	1
Acquisition of associates [1]	24	16	26
Acquisition of available for sale financial assets [2]		2	1
Total		**62**	**28**

[1] *Acquisition of associates includes share issues and other capital contributions.*

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

Acquisition of shares in subsidiaries

EUR million	Note	2011	2010
Gross investments in shares	8	47	0
Changes in non-paid acquisitions		–2	1
Interest-bearing debt in acquired subsidiaries		–1	–
Acquisitions of subsidiaries, net of cash acquired		**44**	**1**

Acquisition of shares in associates

EUR million	2011	2010
Gross investments in shares	25	26
Changes in non-paid acquisitions	–9	0
Acquisitions of associates	**16**	**26**

Acquisition of shares in subsidiaries includes acquisition of two Polish heat companies EUR 22 million and increase in ownership of OAO Fortum. Acquisition of associates includes capital contributions to Teollisuuden Voima Oyj EUR 16 million (2010: 20).

Acquisition of subsidiaries in cash flow includes the equity price of the shares net of cash acquired, whereas gross investments in shares in subsidiaries includes in addition also interest-bearing debt at the time of acquisition.

DIVESTMENTS OF SHARES IN CASH FLOW

EUR million	Note	2011	2010
Proceeds from sales of subsidiaries, net of cash disposed	8	117	9
Proceeds from sales of associates	24	375	121
Proceeds from sales of other non-current assets		0	17
Total		**492**	**147**

Divestments of shares in subsidiaries

EUR million	2011	2010
Gross divestments of shares [3]	206	9
Payments not received for proceeds	0	–
Interest-bearing debt in sold subsidiaries	–89	–
Proceeds from sales of subsidiaries, net of cash disposed	**117**	**9**

[3] *Liquid funds in sold subsidiaries EUR 14 million (2010: 2) are netted from gross divestments.*

Proceeds from sales of fixed assets and divestments of shares totalled EUR 507 million (2010: 154) including EUR 325 million from the divestment of Fingrid Oyj shares, and EUR 111 million related to divestment of the district heat operations and heat production facilities outside Stockholm. Part of the sales price related to the heat divestment, approximately EUR 90 million, is included in the change of interest-bearing receivables in cash flow. That amount is included in Gross divestments of shares.

Notes to the consolidated financial statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Principal activities

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

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

These financial statements were approved by the Board of Directors on 31 January 2012.

1.2 Basis of preparation

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

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

1.2.1 Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting principles. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2 Critical accounting estimates and judgements on page 50.

1.2.2 New Standards and amendments and interpretations to existing standards

Fortum has adopted the following new or amended standards and interpretations to existing standards on 1 January 2011:

- IFRIC 14 *Prepayments of minimum funding requirements* (Amendment) (effective for annual periods beginning on or after 1 January 2011). The amendment permits an entity to treat prepayments of a minimum funding as an asset. The amendment did not have a material impact on Fortum's financial statements.
- IFRIC 19 *Extinguishing financial liabilities with equity instruments* (effective for annual periods beginning on or after 1 July 2010). The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor. The interpretation did not have an impact on Fortum's financial statements.
- *Annual improvements to IFRSs* were issued in May 2010. The improvements primarily remove inconsistencies and clarify wording of standards. There were separate transitional provisions for each standard. Amendments did not have an impact on Fortum's financial statements.
- Fortum has early adopted IAS 24 *Related party disclosures* (effective for annual periods beginning on or after 1 January 2011) already from 1 January 2010.

Fortum will apply the following new or amended standards and interpretations to existing standards on 1 January 2012 or later and has not early adopted these changes:

- IAS 1 *Presentation of Financial statements* (Amendement) (effective for annual periods beginning on or after 1 July 2012). The amendement relates to presentation of Comprehensive Income and Fortum will apply it latest on annual periods beginning on 1 January 2013. The amendment is still subject to endorsement by EU.
- IAS 12 *Income taxes* (Amendment) (effective for annual periods beginning on or after 1 January 2012). The amendment provides a practical approach for measuring deferred tax assets and liabilities when investment property is fair valued under IAS 40 *Investment property*. The amendment is not expexted to have an impact on Fortum, since Fortum currently does not have investment properties. The amendment is still subject to endorsement by EU.
- 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.
- IAS 19 *Employee benefits* (Amendement) (effective for annual periods beginning on or after 1 January 2013). The amendment changes the accounting for defined benefit plans by eliminating the corridor approach. Fortum will apply the amended IAS 19 on the effective date. The amendement is not expected to have a material effect on Fortum's financial statements. The standard is still subject to endorsement by EU.
- IFRS 10 *Consolidated financial statements* (effective for annual periods beginning on or after 1 January 2013). The standard builds on existing principles by identifying the concept of control as the determining factor wether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. Fortum still assesses the impact of the standard and will apply it when it is effective and endorsed in the EU.
- IFRS 11 *Joint arrangements* (effective for annual periods beginning on or after 1 January 2013). The standard replaces IAS 31 *Interests in joint ventures*. Joint control under IFRS 11 is defined as the contractual sharing of control of an arrangement, which exists only when the decisions about the relevant activities require unanimous consent of the parties sharing control. Fortum still assesses

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47

the impact of the standard and will apply it when it is effective and endorsed in the EU.
- IFRS 12 *Disclosures of interests in other entities* (effective for annual periods beginning on or after 1 January 2013). The standard includes disclosure requirements for all forms of investments in other entities. Fortum will apply the new standard when it is effective and endorsed in the EU.
- IFRS 13 *Fair value measurement* (effective for annual periods beginning on or after 1 January 2013). The standard establishes a single framework for measuring fair value where that is required by other standards. Fortum will apply the new standard when it is effective and endorsed in the EU.
- *Annual improvements to IFRSs* were issued in June 2011. 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. Fortum will apply the amendments when they are effective and endorsed in the EU.

1.2.3 Classification of current and non-current assets and liabilities

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

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

1.2.4 Income statement presentation

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

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

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

1.3 Consolidation

1.3.1 Subsidiaries

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

The Fortum Group subsidiaries are disclosed in Note 47 Subsidiaries by segment on 31 December 2011 on page 97.

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

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

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

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

1.3.2 Associates and joint ventures

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

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

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

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

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

For further information regarding the shareholdings in these electricity production companies, see Note 24 Participations in associated companies and joint ventures on page 80 and Note 45 Related party transactions on page 96.

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

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

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

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

Regarding accounting for Fortum's shareholding in Hafslund ASA and TGC-1, see Note 24 Participations in associated companies and joint ventures on page 80.

1.3.3 Non-controlling interests

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

1.4 Segment reporting

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

The Group's businesses are divided into the following reporting segments:

- Power – comprises power generation (exclusive Russia), physical operation and trading as well as expert services for power producers in the Nordic market and selected international markets. Power sells its power mainly to the Nordic power exchange Nord Pool Spot;
- Heat – comprises heat generation and sales in the Nordic countries and other parts of the Baltic Rim. The segment also generates power in the combined heat and power plants (CHP) and sells it to end-customers mainly by long-term contracts, as well as to Nord Pool Spot;
- Distribution – owns and operates distribution and regional networks and distributes electricity to customers in Sweden, Finland, Norway and Estonia;
- Electricity Sales – focuses on the retail sale of electricity to private and business customers as well as to other electricity retailers in Sweden, Finland and Norway. Electricity Sales segment buys its electricity through Nord Pool Spot;
- Russia – comprises power and heat generation and sales in Russia. It includes mainly the Russian subsidiary OAO Fortum and the shareholding in the associated company TGC-1;
- Other – mainly the shareholding in the associated company Hafslund ASA and corporate center including the Fortum Group shared service centers. The shared service centers charge the companies according to service level agreements.

For further information about the reporting segments, see Note 5 Segment reporting on page 60.

1.5 Discontinued operations and assets held for sale

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

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

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

Oil operations have been presented as discontinued operations for 2004 and 2005, see Financial key figures on page 99.

1.6 Foreign currency transactions and translation

1.6.1 Functional and presentation currency

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

1.6.2 Transactions and balances

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

1.6.3 Group companies

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

Exchange rates used to translate reporting currencies into euros are disclosed in Note 10 Exchange rates on page 67.

1.6.4 Associates and joint ventures

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

1.7 Revenue recognition

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

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

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

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

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

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

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

1.7.2 Connection fees

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

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

1.7.3 Contract revenue

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

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

1.7.4 Other income

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

1.8 Government grants

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

1.9 Emission allowances

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

1.10 Borrowing costs

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

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

1.11 Research and development costs

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

1.12 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

See also section 1.24.2 Asset retirement obligations on page 48.

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 (each CHP plant has an individual depreciation period)	15–25 years
Substation buildings, structures and machinery	30–40 years
Distribution network	15–40 years
District heating network	30–40 years
Other buildings and structures	20–40 years
Other tangible assets	20–40 years
Other machinery and equipment	3–20 years
Other non-current investments	5–10 years

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

1.12.1 Jointly controlled assets

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

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

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

For further information regarding Fortum's shareholding in TVO, see Note 24 Participations in associated companies and joint ventures on page 80.

1.13 Intangible assets

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

1.13.1 Computer software

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

1.13.2 Trademarks and licenses

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

1.13.3 Contractual customer relationships

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

1.13.4 Goodwill

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

1.14 Impairment of non-financial assets

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

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

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

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

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

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

1.15 Financial assets

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

1.15.1 Financial assets at fair value through profit or loss

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

1.15.2 Loans and receivables

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

1.15.3 Available for sale financial assets

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

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

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

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

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

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47

1.16 Trade receivables

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

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

1.17 Liquid funds

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

1.18 Treasury shares

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

1.19 Borrowings

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

1.20 Leases

1.20.1 Finance leases

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

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

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

1.20.2 Operating leases

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

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

1.21 Inventories

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

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

1.22 Income taxes

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

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

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

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

1.23 Employee benefits

1.23.1 Pension obligations

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

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

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

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

1.23.2 Share-based compensation

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

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

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

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

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

1.24 Provisions

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

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

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

1.24.1 Environmental provisions

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

1.24.2 Asset retirement obligations

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

1.24.3 Restructuring provisions

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

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

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

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

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

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

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

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

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

For more information regarding nuclear related assets and liabilities, see Note 35 Nuclear related assets and liabilities on page 89.

1.26 Contingent liabilities

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

1.27 Earnings per share

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

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

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

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

1.28 Dividends

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

1.29 Accounting for derivative financial instruments and hedging activities

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

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

1.29.1 Cash flow hedge

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

1.29.2 Fair value hedge

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

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

1.29.3 Net investment hedging in foreign operations

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

1.29.4 Derivatives that do not qualify for hedge accounting

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

1.30 Fair value estimation

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

Financial instruments that are measured in the balance sheet at fair value are presented according to fair value measurement hierarchy in the Note 21 Financial assets and liabilities by fair value hierarchy on page 76.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47

1.30.1 Fair values under Level 1 measurement hierarchy

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

1.30.2 Fair values under Level 2 measurement hierarchy

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

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

1.30.3 Fair values under Level 3 measurement hierarchy

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

1.30.4 Other measurements

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

2.2 Impairment of property, plant and equipment and intangible assets

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

Key assumptions used in goodwill impairment testing are discussed in Note 22 Intangible assets on page 77.

The Group has not recognised any impairment losses in 2011 based on impairment testing done in late 2011.

Impairment losses recognised during 2011 relating to specific items are presented in Note 5 Segment reporting on page 60, in Note 22 Intangible assets on page 77 and in Note 23 Property, plant and equipment on page 78.

The Group has considered the sensitivity of the testing to changes in key assumptions. 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 2011 was 10% lower than management's estimates or pre-tax discount rate applied to the discounted cash flows was 10% higher than management's estimates, the Group would not have recognised impairment losses for property plant and equipment or goodwill.

2.3 Deferred and income taxes

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

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

The Group recognises liabilities for anticipated tax audit 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 audits) would differ negatively from management's estimates with 10%, the Group would need to increase the income tax liability by EUR 8 million.

Most critical assumptions used by management relate to acquisitions, impairment testing of non-current assets and provisions

2.4 Liabilities related to nuclear production

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

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

See Note 35 Nuclear related assets and liabilities on page 89.

2.5 Pension obligations

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

Assumptions used and sensitivity analysis for changes in major assumptions is presented in Note 37 Pension obligations on page 91.

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 on page 21.

3.1 Commodity market risks

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

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

3.2 Electricity price and volume risks

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

Fortum's sensitivity to electricity market price is dependent on the hedge level for a given time period. The hedge ratio on 31 December 2011 was approximately 65% for the year 2012 and 40% for 2013. 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 2012 profit before income tax by approximately EUR 18 million and for 2013 by approximately EUR 30 million. The volume used in this sensitivity analysis is 50 TWh which includes the electricity generation sold to the spot market in Sweden and Finland in the Power and Heat segments without minority owner's shares of electricity or other pass-through sales. This volume is heavily dependent on price level, the hydrological situation, the length of annual maintenance periods and availability of power plants. Sensitivity is calculated only for electricity market price movements. Hydrological conditions, temperature, CO_2 allowance prices, fuel prices and the import/export situation all affect the electricity price on short-term basis and effects of individual factors cannot be separated.

3.2.1 Sensitivity arising from financial instruments according to IFRS 7

Sensitivity analysis shows the sensitivity arising from financial electricity derivatives as defined in IFRS 7. These derivatives are used in hedging and proprietary trading purposes within Fortum. Sensitivities are calculated based on 31 December 2011 (31 December 2010) 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	2011	2010
Effect on Profit before income tax	–/+	3	11
Effect on Equity	–/+	44	43

3.2.2 Electricity derivatives

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

See also Note 1 Summary of significant accounting policies for accounting principles and bases for fair value estimations on page 39 and Note 7 Fair value changes of derivatives and underlying items in income statement on page 65 for the effects in the income statement regarding electricity derivatives not getting hedge accounting status.

ELECTRICITY DERIVATIVES BY INSTRUMENT 2011

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

ELECTRICITY DERIVATIVES BY ACCOUNTING STATUS 2011

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

ELECTRICITY DERIVATIVES BY INSTRUMENT 2010

Gross	Volume, TWh				Fair value, EUR million		
	Under 1 year	1–5 years	Over 5 years	Total	Positive	Negative	Net
Sales swaps	76	48	0	124	44	2,113	–2,069
Purchase swaps	48	23	0	71	1,253	29	1,224
Purchased options	0	0	0	0	0	0	0
Written options	1	1	0	2	1	10	–9
Total	**125**	**72**	**0**	**197**	**1,298**	**2,152**	**–854**
Netting against electricity exchanges [1]					**–1,204**	**–1,204**	**0**
Net total					**94**	**948**	**–854**

ELECTRICITY DERIVATIVES BY ACCOUNTING STATUS 2010

Gross	Volume, TWh				Fair value, EUR million		
	Under 1 year	1–5 years	Over 5 years	Total	Positive	Negative	Net
Derivatives with hedge accounting status	69	44	0	113	628	1,249	–621
Derivatives with non-hedge accounting status [2]	56	28	0	84	670	903	–233
Total	**125**	**72**	**0**	**197**	**1,298**	**2,152**	**–854**
Netting against electricity exchanges [1]							
Derivatives with hedge accounting status					–626	–626	0
Derivatives with non-hedge accounting status [2]					–578	–578	0
Total					**–1,204**	**–1,204**	**0**
Net total					**94**	**948**	**–854**
Of which long-term					33	176	–143
Short-term					61	772	–711

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

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

MATURITY ANALYSIS OF ELECTRICITY DERIVATIVES

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

EUR million	2011 Under 1 year	2011 1–5 years	2011 Over 5 years	2011 Total	2010 Under 1 year	2010 1–5 years	2010 Over 5 years	2010 Total
Electricity derivatives liabilities	–319	–58	–1	–378	–1,800	–352	0	–2,152
Electricity derivatives assets	522	127	1	650	1,094	204	0	1,298

3.3 Fuel price and volume risks

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

OIL DERIVATIVES

	2011 Volume 1,000 bbl	2011 Net fair value MEUR	2010 Volume 1,000 bbl	2010 Net fair value MEUR
Sales swaps and futures	10,000	–6	11,473	–93
Purchase swaps and futures	9,910	4	11,541	76

COAL DERIVATIVES

	2011 Volume kt	2011 Net fair value MEUR	2010 Volume kt	2010 Net fair value MEUR
Sold	12,325	94	6,865	–117
Bought	11,642	–80	7,985	137

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 CO_2 allowance prices related to own production through the use of CO_2 forwards and by ensuring that the costs of allowances are taken into account during production planning. Most of these CO_2 forwards are own use contracts valued at cost and some are treated as derivatives in the accounts.

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

CO_2 EMISSION ALLOWANCE DERIVATIVES

	2011 Volume ktCO_2	2011 Net fair value MEUR	2010 Volume ktCO_2	2010 Net fair value MEUR
Sold	15,283	89	5,225	7
Bought	13,981	–59	8,882	–7

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

3.5 Proprietary trading risks

Fortum is trading electricity forwards, futures and options mainly on the NASDAQ OMX Commodities Europe and EEX markets, CO_2 allowances on the European market and financial coal and oil derivatives on the ICE and OTC markets.

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

3.6 Liquidity and refinancing risk

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

Financing is primarily raised on parent company level and distributed internally through various internal financing arrangements. On 31 December 2011, 90% (2010: 91%) of the Group's total external financing was raised by the parent company Fortum Oyj.

On 31 December 2011, the total interest-bearing debt was EUR 7,770 million (2010: 7,382) and the interest-bearing net debt was EUR 7,023 million (2010: 6,826).

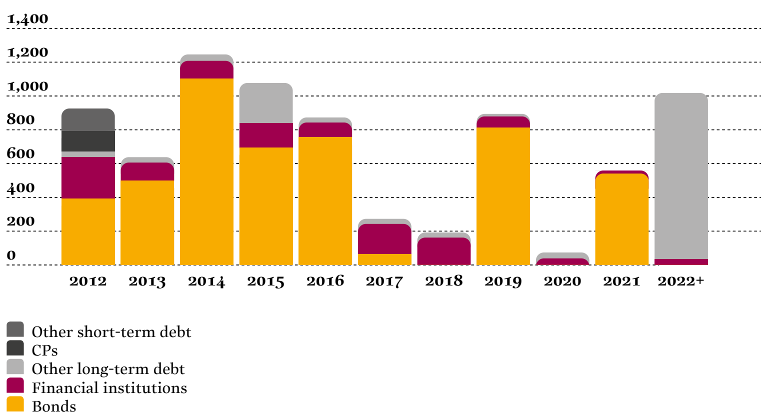
Fortum manages liquidity and refinancing risks through a combination of cash positions and committed credit facility agreements with its core banks. The Group shall at all times have access to cash, marketable securities and unused committed credit facilities including overdrafts, to cover all loans 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 2011, loan maturities for the coming twelve-month period amounted to EUR 925 million (2010: 862). Liquid funds amounted to EUR 747 million (2010: 556) including OAO Fortum's bank deposits amounting to EUR 194 million (2010: 336) and the total amount of committed credit facilities amounted to EUR 2,719 million (2010: 2,918) of which EUR 2,719 million (2010: 2,918) was undrawn.

MATURITY OF INTEREST-BEARING LIABILITIES

EUR million	2011
2012	925
2013	637
2014	1,247
2015	1,077
2016	873
2017 and later	3,011
Total	**7,770**

LOAN MATURITIES PER LOAN TYPE, EUR million



LIQUID FUNDS, MAJOR CREDIT LINES AND DEBT PROGRAMMES 2011

EUR million	Total facility	Drawn amount	Available amount
Liquid funds			
Cash and cash equivalents			747
Bank deposits over 3 months			–
Total			**747**
of which Russia (OAO Fortum)			**211**
Committed credit lines			
EUR 2,500 million syndicated credit facility	2,500	–	2,500
Bilateral overdraft facilities	219	–	219
Total	**2,719**	**–**	**2,719**
Debt programmes (uncommitted)			
Fortum Corporation, CP programmes EUR 500 million	500	–	500
Fortum Corporation, CP programmes SEK 5,000 million	561	122	439
Fortum Corporation, EMTN programmes EUR 6,000 million	6,000	4,859	1,141
Total	**7,061**	**4,981**	**2,080**

Liquid funds amounted to EUR 747 million (2010: 556), including OAO Fortum's bank deposits amounting to EUR 194 million (2010: 336) earmarked for capacity increase investments in Russia. Of these deposits at year-end 2011 EUR 164 million (2010: 336) were in euros and EUR 30 million (2010: 0) in Russian roubles.

Cash and cash equivalents includes cash balances amounting to EUR 16 million presented in Assets held for sale in balance sheet.

See also Note 29 Liquid funds on page 84.

LIQUID FUNDS, MAJOR CREDIT LINES AND DEBT PROGRAMMES 2010

EUR million	Total facility	Drawn amount	Available amount
Liquid funds			
Cash and cash equivalents			285
Bank deposits over 3 months			271
Total			**556**
of which Russia (OAO Fortum)			**348**
Committed credit lines			
EUR 1,200 million syndicated credit facility	1,200	–	1,200
EUR 1,500 million syndicated credit facility	1,500	–	1,500
Bilateral overdraft facilities	218	0	218
Total	**2,918**	**0**	**2,918**
Debt programmes (uncommitted)			
Fortum Corporation, CP programmes EUR 500 million	500	148	352
Fortum Corporation, CP programmes SEK 5,000 million	558	386	172
Fortum Corporation, EMTN programmes EUR 6,000 million	6,000	4,504	1,496
Total	**7,058**	**5,038**	**2,020**

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	2011 Under 1 year	2011 1–5 years	2011 Over 5 years	2011 Total	2010 Under 1 year	2010 1–5 years	2010 Over 5 years	2010 Total
Interest-bearing liabilities	1,217	4,661	3,380	9,258	1,117	4,418	3,419	8,954
Interest rate and currency derivatives liabilities	6,309	2,855	193	9,357	8,235	734	202	9,171
Interest rate and currency derivatives receivables	–6,198	–2,858	–241	–9,297	–7,904	–771	–217	–8,892
Total	**1,328**	**4,658**	**3,332**	**9,318**	**1,448**	**4,381**	**3,404**	**9,233**

Interest-bearing liabilities include loans from the State Nuclear Waste Management Fund and Teollisuuden Voima Oyj EUR 887 million (2010: 835). 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 35 Nuclear related assets and liabilities on page 89.

3.7 Interest rate risk and currency risk

3.7.1 Interest rate risk

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

On 31 December 2011, the average duration of the debt portfolio (including derivatives) was 2.0 years (2010: 2.1). Approximately 47% (2010: 49%) 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 151 million on 31 December 2011 (2010: 150). 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 37 million (2010: 28).

The average interest rate on loans and derivatives on 31 December 2011 was 4.4% (2010: 3.5%). Average cumulative interest rate on loans and derivatives for 2011 was 4.4% (2010: 3.4%).

3.7.2 Currency risk

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

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

The currency risk relating to transaction exposures is measured using Value-at-Risk (VaR) for a one-day period at 95% confidence level. Translation exposures relating to net investments in foreign entities are measured using a five day period at 95% confidence level. The limit for transaction exposure is VaR EUR 5 million. On 31 December 2011 the open transaction and translation exposures were EUR 1 million (2010: 2) and EUR 4,495 million (2010: 3,975) respectively. The VaR for the transaction exposure was EUR 0 million (2010: 0) and VaR for the translation exposure was EUR 57 million (2010: 57).

GROUP TREASURY'S TRANSACTION EXPOSURE

EUR million	2011 Net position	2011 Hedge	2011 Open	2010 Net position	2010 Hedge	2010 Open
SEK	6,334	–6,335	–1	5,964	–5,964	0
USD	211	–211	0	–197	197	0
NOK	140	–140	0	230	–230	0
RUB	219	–218	1	70	–70	0
Other	190	–189	1	123	–121	2
Total	**7,094**	**–7,093**	**1**	**6,190**	**–6,188**	**2**

In addition OAO Fortum is hedging its euro investments with euro deposits EUR 164 million (2010: 336), 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

	2011			2010		
EUR million	**Investment**	**Hedge**	**Open**	**Investment**	**Hedge**	**Open**
RUB	2,877	–	2,877	2,774	–	2,774
SEK	948	–	948	543	–112	431
NOK	448	–	448	429	–	429
PLN	121	–	121	121	–	121
Other	101	–	101	220	0	220
Total	**4,495**	**–**	**4,495**	**4,087**	**–112**	**3,975**

Translation exposure position includes net investments in foreign subsidiaries and associated companies. On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity. The net effect of exchange differences on equity attributable to equity holders from SEK, NOK and RUB was EUR –63 million in 2011 (2010: 299).

INTEREST RATE AND CURRENCY DERIVATIVES BY INSTRUMENT 2011

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

INTEREST RATE AND CURRENCY DERIVATIVES BY USE 2011

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

[1] *Consists of deals without hedge accounting status.*

INTEREST RATE AND CURRENCY DERIVATIVES BY INSTRUMENT 2010

	Notional amount				Fair value		
	Remaining lifetimes						
EUR million	Under 1 year	1–5 years	Over 5 years	Total	Positive	Negative	Net
Forward foreign exchange contracts	7,375	242	2	7,619	28	361	–333
Interest rate swaps	341	2,203	1,554	4,098	141	45	96
Interest rate and currency swaps	538	–	–	538	15	40	–25
Forward rate agreements	–	167	–	167	0	0	0
Total	**8,254**	**2,612**	**1,556**	**12,422**	**184**	**446**	**–262**
Of which long-term					145	55	90
Short-term					39	391	–352

INTEREST RATE AND CURRENCY DERIVATIVES BY USE 2010

	Notional amount				Fair value		
	Remaining lifetimes						
EUR million	Under 1 year	1–5 years	Over 5 years	Total	Positive	Negative	Net
Net investment hedging foreign exchange derivatives	195	–	–	195	0	1	–1
Cash flow hedging foreign exchange derivatives	137	98	2	237	9	6	3
Non-hedging foreign exchange derivatives [1)]	7,043	144	–	7,187	19	354	–335
Total forward foreign exchange contracts	**7,375**	**242**	**2**	**7,619**	**28**	**361**	**–333**
Fair value hedging interest rate derivatives	–	25	1,050	1,075	76	0	76
Cash flow hedging interest rate derivatives	–	922	204	1,126	14	8	6
Non-hedging interest rate derivatives [1)]	341	1,423	300	2,064	51	37	14
Total interest rate derivatives	**341**	**2,370**	**1,554**	**4,265**	**141**	**45**	**96**
Non-hedging interest rate and currency swaps [1)]	538	–	–	538	15	40	–25
Total interest rate and currency swaps	**538**	**–**	**–**	**538**	**15**	**40**	**–25**
Total	**8,254**	**2,612**	**1,556**	**12,422**	**184**	**446**	**–262**

[1)] *Consists of deals without hedge-accounting status.*

3.8 Share derivatives

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

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

See Note 31 Employee bonus system, personnel fund and incentive schemes for more information about the Group's long-term incentive schemes on page 85.

	2011		2010	
EUR million	Notional value	Net fair value	Notional value	Net fair value
Share forwards	9	9	19	20

3.9 Credit risk

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

Credit risk exposures relating to derivative instruments are often volatile due to rapidly changing market prices and are therefore monitored closely. Currency and interest rate derivative counterparts are limited to investment grade banks and financial institutions. ISDA Master agreements, which include netting clauses and in some cases collateral support agreements, are in place with most of these counterparts. The majority of the Group's commodity derivatives are cleared through an exchange such as NASDAQ OMX Commodities Europe (former name Nord Pool), but derivative transactions are also executed on the OTC market directly with external counterparties. These counterparts are limited to those considered of high creditworthiness. Master agreements, such as ISDA, FEMA and EFET, which include netting clauses, are in place with the majority of the counterparts. Furthermore, collaterals are used if dealing with counterparts without approved limits or when exposures arising from engagements are considered too high in relation to the counterpart creditworthiness. Parent company guarantees are requested when dealing with subsidiaries not considered creditworthy on a stand-alone basis.

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

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

3.9.1 Credit quality of major financial assets

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

EUR million	2011 Carrying amount	2011 of which past due	2010 Carrying amount	2010 of which past due
Investment grade receivables	953	–	580 [1]	–
Electricity exchanges	249	–	8	–
Associated companies	1,186	–	1,073	–
Other	86	–	210 [1]	–
Total	**2,474**	**–**	**1,871**	**–**

Investment grade receivables consist of bank deposits EUR 540 million (2010: 336), fair values of interest rate and currency derivatives EUR 292 million (2010: 184) and fair values of electricity, coal, oil and CO_2 emission allowance derivatives EUR 121 million (2010: 60) [1]. Electricity exchange receivable is the fair value of derivatives on NASDAQ OMX Commodities Europe. Associated companies receivables consist of loan receivables EUR 1,186 million (2010: 1,071) and fair values of electricity derivatives EUR 0 million (2010: 2). Other receivables consist of loan and other interest bearing receivables EUR 10 million (2010: 76), finance lease receivables EUR 16 million (2010: 59) and fair values of electricity, coal, oil, and CO_2 emission allowance derivatives EUR 60 million (2010: 75) [1].

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

[1] CO_2 emission allowance derivatives were not included in financial assets in 2010 Financial statements. In 2011 Financial statements they are included in the analyses of credit quality of financial assets and 2010 figures for investment grade receivables have been adjusted with EUR 5 million, from EUR 575 million to EUR 580 million and other receivables have been adjusted with EUR 2 million, from EUR 208 million to EUR 210 million.

BANK DEPOSITS

EUR million	2011	2010
Counterparties with external credit rating from Standard & Poor's and / or Moody's Investment grade ratings		
AAA	–	–
AA+/AA/AA–	93	60
A+/A/A–	296	–
BBB+/BBB/BBB–	151	276
Total investment grade ratings	**540**	**336**
Non-investment grade ratings	**–**	**–**
Counterparties without external credit rating from Standard & Poor's and / or Moody's	**–**	**–**
Total	**540**	**336**

In addition to the bank deposits above, cash in bank accounts totalled EUR 207 million on 31 December 2011 (2010: 220).

INTEREST RATE AND CURRENCY DERIVATIVES

EUR million	2011 Receivables	2011 Netted amount	2010 Receivables	2010 Netted amount
Counterparties with external credit rating from Standard & Poor's and / or Moody's Investment grade ratings				
AAA	–	–	–	–
AA+/AA/AA–	10	0	58	16
A+/A/A–	282	214	126	45
BBB+/BBB/BBB–	–	–	–	–
Total investment grade ratings	**292**	**214**	**184**	**61**
Counterparties without external credit rating from Standard & Poor's and / or Moody's	**–**	**–**	**0**	**0**
Total	**292**	**214**	**184**	**61**

ELECTRICITY, COAL, OIL AND CO_2 EMISSION ALLOWANCE DERIVATIVES

EUR million	2011 Receivables	2011 Netted amount	2010 Receivables	2010 Netted amount
Counterparties with external credit rating from Standard & Poor's and / or Moody's Investment grade ratings				
AAA	–	–	–	–
AA+/AA/AA–	–	–	0	0
A+/A/A–	121	42	60	11
BBB+/BBB/BBB–	–	–	–	–
Total investment grade ratings	**121**	**42**	**60**	**11**
Non-investment grade ratings				
BB+/BB/BB–	7	6	2	1
B+/B/B–	–	–	–	–
Below B–	–	–	–	–
Total non-investment grade ratings	**7**	**6**	**2**	**1**
Total associated companies	0	0	2	0
Counterparties without external credit rating from Standard & Poor's or Moody's				
Government or municipality	4	3	7	2
Fortum Rating 5 – Lowest risk	32	27	46	8
Fortum Rating 4 – Low risk	17	15	18	14
Fortum Rating 3 – Normal risk	0	0	1	0
Fortum Rating 2 – High risk	0	0	–	–
Fortum Rating 1 – Highest risk	–	–	0	0
No rating	0	0	1	1
Total non-rated counterparties	**53**	**45**	**73**	**25**
Total electricity, coal, oil and CO_2 emission allowance derivatives	**181**	**93**	**137**	**37**

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47

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

All counterparties for currency and interest rate derivatives and the majority of counterparts 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 counterparts only rated by Moody's, the rating has been translated to the equivalent Standard and Poor's rating category.

In the electricity, coal and oil derivatives market, there are a number of counterparts not rated by Standard & Poor's or Moody's. For these counterparts, Fortum assigns an internal rating. The internal rating is based on external credit ratings from other credit agencies. The risk class from Asiakastieto is used for Finnish counterparties, the rating from Creditinform is used for Norwegian counterparties, the risk indicator from UC (Upplysningscentralen) is used for 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. Counterparts 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 liquid funds. EBITDA is calculated by adding back depreciation, amortisation and impairment charges to operating profit, whereas Comparable EBITDA is calculated by deducting items affecting comparability and net release of CSA provision from EBITDA. In September 2010 with launching the revised strategy Fortum adjusted its net debt to EBITDA target to be around 3. The earlier target was a range of 3.0–3.5.

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

In December 2011, Standard and Poor's revised its outlook rating for Fortum's Corporation from (stable) to (negative), but at the same time affirmed the (A) long-term rating. Fortum Corporation's long-term credit rating from Moody's, A2 (stable), remained unchanged.

NET DEBT / EBITDA RATIOS

EUR million	Note	2011	2010
Interest-bearing liabilities	33	7,770	7,382
Less: Liquid funds 1)	29	747	556
Net debt		**7,023**	**6,826**
Operating profit		2,402	1,708
Add: Depreciation, amortisation and impairment charges		606	563
EBITDA		**3,008**	**2,271**
Less: Items affecting comparability		600	–125
Less: Net release of CSA provision		34	–
Comparable EBITDA		**2,374**	**2,396**
Net debt / EBITDA		**2.3**	**3.0**
Comparable net debt / EBITDA		**3.0**	**2.8**

1) *Including cash balances of EUR 16 million (2010: 0) classified as assets held for sale in balance sheet.*

5 SEGMENT REPORTING

5.1 Fortum's business structure

Fortum's business operations are organised in four divisions and four 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 Finance, Corporate Relations and Sustainability, Corporate Human Resources and Corporate Strategy and R&D. Fortum also has a Trading and Industrial Intelligence (TII) unit that manages hedging activities and fuel purchasing activities on behalf of Power, Heat, ESD divisions and provides market analysis to support decision making in Fortum. 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, physical operation and trading as well as expert services for power producers in the Nordic market and selected international markets. Power sells its power mainly to the Nordic power exchange Nord Pool Spot.

Heat's main business is combined heat and power (CHP) production and district heating activities 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, Norway and Estonia. Electricity distribution is a regulated business, and is therefore supervised by national energy authorities. Models and principles for supervision and considerations of reasonable tariffs differ from country to country.

Electricity Sales is responsible for retail sales of electricity to a total of 1.2 million private and business customers as well as other retailers in Finland, Sweden and Norway. It is the leading seller of eco-labeled and CO_2-free electricity in the Nordic countries. Electricity Sales buys its electricity from Nord Pool Spot. Electricity supply in the Nordic countries is a deregulated business since 1995 which means that customers can freely change electricity supplier.

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

5.3 Definitions for segment information

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

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

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

See Note 7 Fair value changes of derivatives and underlying items in income statement on page 65.

- 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 35 Nuclear related assets and liabilities on page 89.

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 Key figures on page 99, Definitions of key figures on page 104 and Quarterly financial information on page 114.

Quarterly segment information from 2005 to 2011 is available on Fortum's website 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.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47

5.5 Segment information 2011

INCOME STATEMENT

EUR million	Note	Power	Heat	Russia	Distribution	Electricity Sales	Other	Netting and eliminations [1]	Total
Sales		2,481	1,737	920	973	900	108	–958	6,161
of which internal		–24	8	–	15	95	115	–209	0
External sales		2,505	1,729	920	958	805	–7	–749	6,161
Depreciation, amortisation and impairment		109	193	108	187	2	7	–	606
Comparable EBITDA		**1,310**	**471**	**148**	**482**	**29**	**–66**	**–**	**2,374**
Comparable operating profit		**1,201**	**278**	**74**	**295**	**27**	**–73**	**–**	**1,802**
Non-recurring items	6	2	86	0	193	3	0	–	284
Changes in fair values of derivatives hedging future cash-flow	6, 7	301	16	–	–10	–27	64	–	344
Nuclear fund adjustment	6, 35	–28	–	–	–	–	–	–	–28
Operating profit		**1,476**	**380**	**74**	**478**	**3**	**–9**	**–**	**2,402**
Share of profit of associated companies and joint ventures	24, 35	3	19	30	14	2	23	–	91
Finance costs – net									–265
Income taxes									–366
Profit for the period									**1,862**

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

IMPAIRMENT LOSSES AND RESTRUCTURING COSTS

EUR million	Power	Heat	Russia	Distribution	Electricity Sales	Other	Total
Recognised impairment losses for trade receivables	0	–4	–2	–2	–2	–	–10
Recognised impairment losses for intangible assets and property, plant and equipment	0	0	0	0	–	–	0
Restructuring costs	0	0	–1	–1	0	0	–2

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

ASSETS AND LIABILITIES [2]

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

INVESTMENTS/DIVESTMENTS

EUR million	Note	Power	Heat	Russia	Distribution	Electricity Sales	Other	Total
Gross investments in shares	8, 24	**17**	**32**	**24**	**–**	**–**	**1**	**74**
Capital expenditure	22, 23	**131**	**297**	**670**	**289**	**5**	**16**	**1,408**
of which capitalised borrowing costs		0	4	49	0	–	–	53
Gross divestments of shares		**2**	**115**	**35**	**323**	**17**	**0**	**492**

COMPARABLE RETURN ON NET ASSETS [2]

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

[2] *Including assets and liabilities relating to Assets held for sale and related liabilities.*

See also Note 9 Assets held for sale on page 67.

EMPLOYEES

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

5.6 Segment information 2010

INCOME STATEMENT

EUR million	Note	Power	Heat	Russia	Distribution	Electricity Sales	Other	Netting and eliminations [1]	Total
Sales		2,702	1,770	804	963	1,798	51	–1,792	6,296
of which internal		–281	–8	–	18	158	169	–56	0
External sales		2,983	1,778	804	945	1,640	–118	–1,736	6,296
Depreciation, amortisation and impairment		–100	–187	–86	–178	–2	–10	–	–563
Comparable EBITDA		**1,398**	**462**	**94**	**485**	**13**	**–56**	**–**	**2,396**
Comparable operating profit		**1,298**	**275**	**8**	**307**	**11**	**–66**	**–**	**1,833**
Non-recurring items	6	6	29	45	12	–	1	–	93
Changes in fair values of derivatives hedging future cash-flow	6, 7	–170	–1	–	2	35	–82	–	–216
Nuclear fund adjustment	6, 35	–2	–	–	–	–	–	–	–2
Operating profit		**1,132**	**303**	**53**	**321**	**46**	**–147**	**–**	**1,708**
Share of profit of associated companies and joint ventures	24, 35	–25	31	8	19	1	28	–	62
Finance costs – net									–155
Income taxes									–261
Profit for the period									**1,354**

[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 1,736 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	1	0	–26	–1	–1	0	–27
Recognised impairment losses for intangible assets and property, plant and equipment	0	0	–2	–	–1	–	–3
Restructuring costs	0	0	–1	–1	–4	–1	–7

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

ASSETS AND LIABILITIES [2]

EUR million	Power	Heat	Russia	Distribution	Electricity Sales	Other	Eliminations	Total
Non-interest-bearing assets	6,022	4,574	2,750	3,990	650	286	–576	17,696
Participations in associated companies and joint ventures	912	159	423	217	13	437		2,161
Assets included in Net assets	**6,934**	**4,733**	**3,173**	**4,207**	**663**	**723**	**–576**	**19,857**
Interest-bearing receivables								1,208
Deferred taxes								141
Other assets								202
Liquid funds								556
Total assets								**21,964**
Liabilities included in Net assets	**1,128**	**551**	**356**	**524**	**453**	**694**	**–576**	**3,130**
Deferred tax liabilities								1,725
Other liabilities								985
Total liabilities included in Capital employed								**5,840**
Interest-bearing liabilities								7,382
Total equity								8,742
Total equity and liabilities								**21,964**

INVESTMENTS/DIVESTMENTS

EUR million	Note	Power	Heat	Russia	Distribution	Electricity Sales	Other	Total
Gross investments in shares	8, 24	**25**	**1**	**–**	**0**	**–**	**1**	**27**
Capital expenditure	22, 23	**97**	**304**	**599**	**213**	**0**	**9**	**1,222**
of which capitalised borrowing costs		0	11	34	–	–	–	45
Gross divestments of shares		**–**	**52**	**43**	**46**	**–**	**6**	**147**

COMPARABLE RETURN ON NET ASSETS [2]

	Net assets by segments EUR million	Return on net assets (%)	Comparable return on net assets (%)
Power	5,806	19.5	22.3
Heat	4,182	8.4	7.7
Russia	2,817	2.4	0.7
Distribution	3,683	9.7	9.3
Electricity Sales	210	38.4	9.3
Other	29	–48.2	–7.7

[2] *Including assets and liabilities relating to Assets held for sale and related liabilities.*

See also Note 9 Assets held for sale on page 67.

EMPLOYEES

	Power	Heat	Russia	Distribution	Electricity Sales	Other	Total
Number of employees 31 Dec	1,819	2,394	4,294	962	525	591	10,585
Average number of employees	1,891	2,482	4,555	1,098	538	592	11,156

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	2011	2010
Power sales excluding indirect taxes	3,458	3,615
Heat sales	1,602	1,596
Network transmissions	905	912
Other sales	196	173
Total	**6,161**	**6,296**

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	2011	2010
Nordic	4,760	5,039
Russia	923	802
Poland	207	169
Estonia	105	99
Other countries	166	187
Total	**6,161**	**6,296**

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	2011	2010
Finland	239	190
Sweden	392	300
Russia	670	599
Poland	18	45
Estonia	12	53
Norway	19	15
Other countries	58	20
Total	**1,408**	**1,222**

SEGMENT ASSETS BY LOCATION [1)]

EUR million	2011	2010
Finland	4,305	4,755
Sweden	9,775	9,980
Russia	3,249	2,747
Poland	346	356
Estonia	263	269
Norway	245	254
Other countries	202	136
Eliminations	–224	–801
Non-interest bearing assets	**18,161**	**17,696**
Participations in associates and joint ventures	**2,020**	**2,161**
Total	**20,181**	**19,857**

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

See also Note 9 Assets held for sale on page 67.

NUMBER OF EMPLOYEES ON 31 DECEMBER BY LOCATION

	2011	2010
Finland	2,683	2,609
Sweden	2,040	2,257
Russia	4,376	4,289
Poland	859	633
Estonia	331	350
Norway	139	137
Other countries	352	310
Total	**10,780**	**10,585**

6 ITEMS AFFECTING COMPARABILITY

EUR million	2011	2010
Capital gains and losses on disposal of non-current assets	284	93
Fair value changes on derivatives that do not qualify for hedge accounting	344	–216
Nuclear fund adjustments	–28	–2
Total	**600**	**–125**

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

Capital gains in 2010 mainly include sales gains from the Swedegas AB shares in Heat segment, Karlskoga Energi & Miljö AB shares in Distribution segment as well as the Kurgan Generating Company, Federal Grid Company and St. Petersburg Sales Company shares in Russia 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 on page 65.

For more information regarding disposals of shares, see Note 8 Acquisitions and disposals on page 66 and Note 24 Participations in associated companies and joint ventures on page 80.

For more information regarding nuclear waste management, see Note 35 Nuclear related assets and liabilities on page 89.

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 -3 million (2010: 0). The net effect of fair value changes of hedging derivative and hedged bonds are EUR 6 million (2010: 2).

EUR million	2011	2010
In operating profit		
Fair value changes from derivatives not getting hedge accounting status		
Electricity derivatives	281	–206
Currency derivatives	9	–34
Oil derivatives	–1	2
Coal and CO_2 derivatives	24	27
Share derivatives with hedged items [1]	0	2
Ineffectiveness from cash flow hedges	31	–7
Total effect in operating profit	**344**	**–216**
Fair value changes of derivatives not getting hedge accounting included in share of profit of associated companies	**0**	**–5**
In finance costs		
Exchange gains and losses on loans and receivables	40	744
Fair value changes of derivatives not getting hedge accounting status		
Cross currency interest rate derivatives	–4	–130
Foreign currency derivatives	–37	–611
Rate difference on forward contracts	2	10
Currency derivatives	–39	–731
Interest rate derivatives	–3	0
Fair value change of hedging derivatives in fair value hedge relationship	98	34
Fair value change of hedged items in fair value hedge relationship	–92	–32
Total [2]	–36	–729
Total effect in finance costs	**4**	**15**
Total effect on profit before income tax	**348**	**–206**

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

[2] *Including fair value gains and losses on financial instruments and exchange gains and losses on derivatives.*

8 ACQUISITIONS AND DISPOSALS

GROSS INVESTMENTS IN SUBSIDIARY SHARES BY SEGMENT

EUR million	2011	2010
Power	–	0
Heat	23	0
Russia	24	–
Distribution	–	0
Electricity Sales	–	–
Other	–	0
Total	**47**	**0**

GROSS INVESTMENTS IN SUBSIDIARY SHARES BY COUNTRY

EUR million	2011	2010
Finland	0	0
Sweden	0	0
Russia	24	–
Other countries	23	0
Total	**47**	**0**

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 2011 and 2010

Total investment in subsidiary shares in 2011 amounted to EUR 47 million (2010: 0).

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

During Q3 2011 parties confirmed that the remaining the part of the payment related to the divestment of Fortum's shares St. Petersburg Sales Company (in Q3/2010) will be paid in OAO Fortum shares (3.04%). After that Fortum's ownership in OAO Fortum is 97.55%.

There were no material acquisitions during 2010.

8.2 Disposals in 2011 and 2010

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

DIVESTMENTS 2011

EUR million	2011
Divestment of district heat operations and production facilities outside Stockholm	
Property, plant and equipment	138
Other non-current and current assets	42
Liquid funds	14
Interest-bearing loans	–89
Other liabilities and provisions	–54
Non-controlling interests	–8
Gain on sale	82
Sales price received	**125**
Less liquid funds	14
Sales price for the shares (net of cash)	**111**
Proceeds from interest-bearing receivables	89
Total	**200**
Other divestments	6
Gross divestment of shares	**206**

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

For more information see Note 24 Participations in associated companies and joint ventures on page 80.

There were no material divestments during 2010.

9 ASSETS HELD FOR SALE

Assets held for sale 2011

In December 2011 Fortum signed an agreement to sell Fortum Energiaratkaisut Oy and Fortum Termest AS to the EQT Infrastructure Fund. The total sales price, including net debt, is approximately EUR 200 million. Fortum's sales gain will be over EUR 50 million. The divestment is planned to be completed during the first quarter of 2012. The assets and liabilities related to the disposal are presented as assets held for sale in the financial statements as of 31 December 2011.

In December 2011 Fortum signed an agreement to sell Fortum Elekter AS, Estonia, to Imatran Seudun Sähkö. The divestment is planned to be completed during the first quarter of 2012. The assets and liabilities related to the disposal are presented as assets held for sale in the financial statements as of 31 December 2011.

Assets held for sale 2010

The assets and liabilities held for sale relate to district heat operations and production facilities outside Stockholm in Sweden. In December 2010 Fortum signed an agreement to divest those assets and operations. The major part of the operations to be divested is owned by Fortum's subsidiary AB Fortum Värme samägt med Stockholms stad in which the city of Stockholm has a 50% economic interest. The assets and liabilities related to the disposal are presented as assets held for sale in the financial statements as of 31 December 2010.

Please see Note 8 Acquisitions and disposals on page 66.

ASSETS HELD FOR SALE [1)]

EUR million	2011	2010
Property, plant and equipment	128	131
Other assets	39	23
Liquid funds	16	–
Total	**183**	**154**

LIABILITIES RELATED TO ASSETS HELD FOR SALE [1)]

EUR million	2011	2010
Interest-bearing liabilities	0	0
Other liabilities	29	50
Total	**29**	**50**

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

10 EXCHANGE RATES

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

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

KEY EXCHANGE RATES FOR FORTUM GROUP APPLIED IN THE ACCOUNTS

		Average rate		Balance sheet date rate	
	Currency	2011	2010	31 Dec 2011	31 Dec 2010
Sweden	SEK	9.0038	9.5510	8.9120	8.9655
Norway	NOK	7.7824	8.0262	7.7540	7.8000
Poland	PLN	4.1254	4.0126	4.4580	3.9750
Russia	RUB	41.0219	40.4473	41.7650	40.8200

11 OTHER INCOME

EUR million	2011	2010
Gain on sale of emission rights	13	6
Rental income	10	24
Insurance compensation	9	7
Other items	59	71
Total	**91**	**108**

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

Gain on sale of emission rights amounted to EUR 13 million (2010: 6). Costs for made emissions which are not covered by emission rights received for free were EUR 37 million (2010: 33). The costs are included in Materials and services.

Fortum has leased out its 308 MW share of the Meri-Pori power plant from January 2007 to the end of June 2010. The lease agreement was classified as an operating lease and the rental income is included in other income.

12 MATERIALS AND SERVICES

EUR million	2011	2010
Materials	1,687	1,804
Materials purchased from associated companies	662	764
Transmission costs	179	167
External services	38	111
Total	**2,566**	**2,846**

Materials contain mainly coal, gas and nuclear fuels used for producing power and heat. Costs for materials have decreased compared to last year mainly due to decreased production volumes.

Materials purchased from associated companies consist of purchased fuels used in CHP production and of nuclear- and hydropower purchased at production cost including interest costs and production taxes. Costs for materials purchased from associated companies are lower compared to last year mainly due to decrease of purchases of gas used in CHP production.

Total materials and services include production taxes and duties EUR 209 million (2010: 190) of which nuclear related capacity and property taxes EUR 90 million (2010: 85) and hydro power related property taxes EUR 13 million (2010: 12). Taxes related to nuclear and hydro production include taxes paid through electricity purchased from associated companies as mentioned above.

See Note 24 Participations in associated companies and joint ventures on page 80.

13 OTHER EXPENSES

EUR million	2011	2010
Operation and maintenance costs	289	248
Property taxes	118	89
IT and telecommunication costs	67	65
Research and development costs	38	30
Other items	237	223
Total	**749**	**655**

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 94 million (2010: 69).

PRINCIPAL AUDITORS' FEES

EUR million	2011	2010
Audit fees	1.4	1.3
Audit related assignments	0.1	0.1
Tax assignments	0.3	0.0
Other assignments	0.1	0.1
Total	**1.9**	**1.5**

Deloitte is the appointed auditor until the Annual General Meeting, held in 2012. 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 to the audit. Tax fees include fees for tax advice services.

14 EMPLOYEE COSTS AND MANAGEMENT REMUNERATION

EUR million	2011	2010
Wages and salaries	370	365
Pensions		
Defined contribution plans	33	35
Defined benefit plans	16	11
Social security costs	71	68
Share-based remunerations	10	7
Other employee costs	29	21
Total	**529**	**507**
Change in fair value of LTI hedge arrangement is presented in other items affecting comparability	0	–2

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

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

For further information on Fortum's employee bonus and long term incentive schemes as well as personnel fund, see Note 31 on page 85 and for pension obligations see Note 37 on page 91.

14.1 Supervisory Board remuneration

The Supervisory Board was dissolved and the Articles of Association were amended on 4 April 2011 after the Annual General Meeting in March 2011. Below is the compensation of the Supervisory Board for their services up to that date.

For further information on the dissolving of Fortum's Supervisory Board see Corporate Governance Statement on page 116.

TOTAL COMPENSATION FOR SUPERVISORY BOARD SERVICE

EUR	1 Jan – 4 April 2011	2010
Markku Laukkanen, Chairman	3,200	13,000
Sanna Perkiö, Deputy Chairman	2,000	8,000
Martti Alakoski	1,700	7,000
Tarja Filatov	1,700	6,800
Sampsa Kataja	1,700	7,000
Kimmo Kiljunen	1,700	7,200
Katri Komi	1,700	6,800
Panu Laturi	1,700	7,200
Juha Mieto	1,700	7,000
Jukka Mäkelä (until 19 October 2010)	N/A	5,800
Helena Pesola	1,700	7,200
Total	**18,800**	**83,000**

14.2 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 2011 Annual General Meeting seven members were elected.

The Annual General meeting confirms the yearly compensation for the Board of Directors. In addition, a EUR 600 meeting fee is paid. The meeting fee is also paid for committee meetings and is paid in double to a member who lives outside Finland in Europe and triple to a member who lives outside Europe. The members are entitled to travel expense compensation in accordance with the company's travel policy. Board members are not offered any long-term incentive benefits or participation in other incentive schemes. There is no pension plan for the Board members.

COMPENSATION FOR BOARD SERVICE

EUR / year	2011	2010
Chairman	66,000	66,000
Deputy Chairman	49,200	49,200
Members	35,400	35,400
Meeting fee	600	600

TOTAL COMPENSATION FOR BOARD OF DIRECTORS

EUR	2011	2010
Chairman, Sari Baldauf [1]	70,261	58,800
Deputy Chairman, Christian Ramm-Schmidt [2]	54,800	45,600
Esko Aho	43,800	45,000
Minoo Akhtarzand (from 31 March 2011)	34,478	N/A
Heinz-Werner Binzel (from 31 March 2011)	37,478	N/A
Ilona Ervasti-Vaintola	43,800	45,000
Joshua Larson	56,400	46,391
Former Chairman Matti Lehti (until 31 March 2011)	19,500	75,600
Birgitta Johansson-Hedberg (until 31 March 2011)	11,250	52,800
Total	**371,767**	**369,191**

1) *Chairman from 31 March 2011, before that deputy Chairman.*
2) *Deputy Chairman from 31 March 2011.*

14.3 The President and CEO and the management team remuneration

The Fortum Management Team (FMT) consists of nine members. The following tables present the total remuneration of the President and CEO and the Fortum Management Team. Social security expenses EUR 383 thousand (2010: 353) have been booked for salaries, fringe benefits and bonuses in accordance with local legislation in respective countries.

The remuneration presented below is prepared on accrual basis.

Additional information about the paid remuneration is available on page 124, Remuneration.

MANAGEMENT REMUNERATION

EUR thousands	2011 The President and CEO	2011 Other FMT members	2010 The President and CEO	2010 Other FMT members
Salaries and fringe benefits	952	2,800	912	2,482
Performance bonuses [1]	276	791	307	871
Share-based remuneration	592	1,476	513	1,225
Pensions	497	1,329	487	946
Total	**2,317**	**6,396**	**2,219**	**5,524**

1) *Performance bonus expenses for year 2011 are based on estimated amounts.*

The compensation package for FMT consists of base salaries, purposeful benefits, annual individual short-term incentives (bonus) and share-based remuneration. The criteria used in determining the size of the bonus for senior management are decided annually by the Board of Directors on the recommendation of the Board's Nomination and Remuneration Committee. The performance of each senior executive is evaluated annually. 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 their individual goals, which for the President and CEO are set by the Board's Nomination and Remuneration Committee. The Committee recommends the level of the President and CEO's compensation to the Board of Directors for approval. Bonuses are paid next spring after publication of Fortum's yearly results and after the annual performance discussions have been held.

The President and CEO as well as the other FMT members participate in long-term incentive (LTI) schemes. The expense in the income statement for these plans is calculated in accordance with IFRS 2 *Share-based payments*.

For additional information about long-term incentive schemes, see Note 31 Employee bonus system, personnel fund and incentive schemes on page 85.

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

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

In the event that Fortum decides to give notice of termination to the President and CEO, he is entitled to compensation equaling 24 months' salary and other FMT members to a compensation equaling 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 and on page 124, Remuneration.

Shares delivered or to be delivered to the management

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

In the table below share amounts to be delivered are estimated and the actual number of shares will be determined at the time of delivery in spring 2012.

According to the Cabinet Committee's Economic Policy for the State-owned corporations, the total taxable gross value of the benefit arising from the shares delivered to a participant cannot exceed the participant's one-year salary including fringe benefits. Shares disclosed are not reflecting this limitation, which will be applied at the time of delivery in spring 2012.

For more information on the LTI arrangements see Note 31 Employee bonus system, personnel fund and incentive schemes on page 85.

SHARE RIGHTS DELIVERED OR TO BE DELIVERED TO THE MANAGEMENT

Name	2011	2012
Tapio Kuula	19,663	17,171
Anne Brunila	2,524	3,983
Alexander Chuvaev [1]	12,960	18,749
Mikael Frisk	5,285	4,576
Timo Karttinen	6,053	5,213
Juha Laaksonen	6,620	6,840
Per Langer	4,273	3,966
Maria Paatero-Kaarnakari	3,118	2,856
Matti Ruotsala	6,219	7,283

[1] *Share rights will be paid in cash instead of shares after the two-year lock-up period due to local legislation.*

14.4 Management shareholding

On 31 December 2011, the members of the Board of Directors owned a total of 9,550 shares (2010: 11,450), which corresponds to 0.00% of the company's shares and voting rights.

The President and CEO and other members of the Fortum Management Team owned a total of 253,276 shares (2010: 208,333) which corresponds to approximately 0.03% (2010: 0.02%) of the company's shares and voting rights.

SHARES HELD BY MEMBERS OF THE BOARD OF DIRECTORS

	2011	2010
Chairman, Sari Baldauf	2,300	2,300
Deputy Chairman, Christian Ramm-Schmidt	2,250	2,250
Esko Aho	–	–
Minoo Akhtarzand (from 31 March 2011)	–	N/A
Heinz-Werner Binzel (from 31 March 2011)	1,000	N/A
Ilona Ervasti-Vaintola	4,000	4,000
Joshua Larson	–	–
Former Chairman Matti Lehti (until 31 March 2011)	N/A	2,000
Birgitta Johansson-Hedberg (until 31 March 2011)	N/A	900
Total	**9,550**	**11,450**

SHARES HELD BY MEMBERS OF FORTUM MANAGEMENT TEAM

	2011	2010
Tapio Kuula	101,232	81,569
Anne Brunila	2,524	–
Alexander Chuvaev	–	–
Mikael Frisk	28,473	30,000
Timo Karttinen	55,015	48,962
Juha Laaksonen	40,861	34,241
Per Langer	12,751	8,478
Maria Paatero-Kaarnakari	6,201	5,083
Matti Ruotsala	6,219	–
Total	**253,276**	**208,333**

15 DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

EUR million	2011	2010
Depreciation of property, plant and equipment		
Buildings and structures	106	91
Machinery and equipment	473	443
Other tangible assets	8	5
Amortisation of intangible assets	19	21
Total	**606**	**560**
Impairment charges		
Other intangible assets	0	1
Buildings and structures	0	2
Total	**0**	**3**
Depreciation, amortisation and impairment charges total	**606**	**563**

See also Note 5 Segment reporting on page 60.

16 FINANCE COSTS – NET

EUR million	Note	2011	2010
Interest expense			
Borrowings		–335	–241
Other interest expense		–2	–1
Capitalised borrowing costs	23	53	45
Total		**–284**	**–197**
Interest income			
Loan receivables		49	66
Other interest income		7	6
Total		**56**	**72**
Fair value gains and losses on financial instruments	7		
Fair value change of interest rate derivatives not getting hedge accounting		–3	0
Fair value change of hedging derivatives in fair value hedge relationship		98	34
Fair value change of hedged items in fair value hedge relationship		–92	–32
Rate difference on forward contracts		2	10
Total		**5**	**12**
Exchange gains and losses			
Loans and receivables	7	40	744
Cross currency interest rate derivatives	7	–4	–130
Foreign currency derivatives	7	–37	–611
Dividend income		0	1
Interest income on share of State Nuclear Waste Management Fund	35	17	14
Unwinding of discount on nuclear provisions	35	–36	–40
Unwinding of discount on other provisions	36	–16	–16
Other financial income		1	3
Other financial expenses		–7	–7
Total		**–42**	**–42**
Finance costs – net		**–265**	**–155**

Interest expenses include interest expenses on interest-bearing loans, interest on interest rate and currency swaps and forward points on forward foreign exchange contracts hedging loans and receivables. Other interest expenses includes interest on financial leases EUR –1 million (2010: –1) and other interest cost EUR –1 million (2010: 0).

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

Interest income includes EUR 33 million (2010: 38) from shareholders' loans in Finnish and Swedish nuclear companies, EUR 10 million (2010: 25) from deposits.

Other interest income includes EUR 3 million (2010: 3) income from financial leases as a lessor.

Fair value gains and losses on financial instruments include change in clean price of interest rate and cross currency swaps not getting hedge accounting and fair value changes of interest rate derivatives in hedge relationship and hedged items. Accrued interest on these derivatives is entered in interest expenses of borrowings. Fair value gains and losses include also rate difference from forward contracts hedging loans and receivables without hedge accounting.

Exchange gains and losses includes exchange rate differences arising from valuation of foreign currency loans and receivables and exchange rate differences from forward foreign exchange contracts and interest rate and currency swaps.

FAIR VALUE CHANGES ON INTEREST RATE AND CURRENCY DERIVATIVES

EUR million	2011	2010
Interest rate and cross currency swaps		
Interest expenses on borrowings	20	22
Exchange rate difference from derivatives	–4	–130
Rate difference in fair value gains and losses on financial instruments [1]	95	34
Total fair value change of interest rate derivatives in finance costs – net	**111**	**–74**
Forward foreign exchange contracts		
Interest expenses on borrowings	–60	–7
Exchange rate difference from derivatives	–37	–611
Rate difference in fair value gains and losses on financial instruments	2	10
Total fair value change of currency derivatives in finance costs – net	**–95**	**–608**
Total fair value change of interest and currency derivatives in finance costs – net	**16**	**–682**

[1] *Fair value gains and losses on financial instruments include fair value changes from interest rate swaps not getting hedge accounting amounting to EUR –3 million (2010: 0).*

Aggregated exchange rate differences included in operating profit were EUR 0 million (2010: 1) and in finance costs EUR –1 million (2010: 3).

17 INCOME TAX EXPENSE

17.1 Profit before tax

EUR million	2011	2010
Finnish companies	913	513
Swedish companies	837	666
Other companies	478	436
Total	**2,228**	**1,615**

17.2 Major components of income tax expense by major countries

EUR million	2011	2010
Current taxes		
Finnish companies	–94	–183
Swedish companies	–155	–178
Other companies	–22	–29
Total	**–271**	**–390**
Deferred taxes		
Finnish companies	–42	74
Swedish companies	–33	5
Other companies	–6	50
Total	**–81**	**129**
Adjustments recognised for current tax of prior periods		
Finnish companies	–11	0
Swedish companies	1	0
Other companies	–4	0
Total	**–14**	**0**
Total income taxes	**–366**	**–261**

17.3 Income tax rate

The table below explains the difference between the theoretical enacted tax rate in Finland compared to the tax rate in the income statement.

EUR million	2011	%	2010	%
Profit before tax	2,228		1,615	
Tax calculated at nominal Finnish tax rate	–579	26.0	–420	26.0
Tax rate change	29	–1.3	0	0.0
Differences in tax rates and regulations in other countries	89	–4.0	113	–7.0
Income not subject to tax	11	–0.6	5	–0.3
Tax exempt capital gains	81	–3.6	20	–1.2
Expenses not deductible for tax purposes	–5	0.2	–5	0.3
Share of profit of associated companies and joint ventures	23	–1.0	16	–1.0
Taxes related to dividend distributions	1	–0.1	–1	0.1
Tax losses for which no deferred tax was recognised	–12	0.5	–1	0.1
Utilisation of previously unrecognised tax losses	3	–0.1	1	–0.1
Changes in tax provisions	3	–0.1	11	–0.7
Adjustments recognised for taxes of prior periods	–10	0.5	0	0.0
Tax charge in the income statement	**–366**	**16.4**	**–261**	**16.2**

The weighted average applicable tax rate was 26.9% (2010: 26.9%). The tax rate according to the income statement was 16.4% (2010: 16.2%). In December 2011 the Finnish Government passed legislation lowering the income tax rate from 26% to 24.5%. The one-time positive effect in the income tax cost from the tax rate change is approximately EUR 29 million. The tax rate used in the income statement is always impacted by the fact that share of profits of associates and joint ventures are recorded based on Fortum's share of profits after tax. Excluding the share of profits from associates, capital gains and tax rate change, the tax rate was 21.4% (2010: 17.7%).

Fortum's tax rate in the income statement, 16.4%, was on ongoing basis mainly affected by the balance of income in different countries combined with the effects from the latest acquisitions, investments and other operative actions and structures and their tax treatment.

17.4 One-time effects

During 2011 Finnish Government decided to decrease the income tax rate from 26% to 24.5%. Decreased tax rate will be applicable as from the beginning of 2012, but a major positive effect comes already during 2011 from revaluing the deferred taxes. The major part of the tax exempt capital gains in 2011 is the sale of shares in Fingrid Oyj.

During 2010 there were several tax exempt capital gains. The major part of them relates to the sales of shares in associated companies St. Petersburg Sales Company, Swedegas AB and Karlskoga Energi & Miljö AB.

Fortum has had various tax audits ongoing during the year. In Sweden Fortum has received tax authorities' final tax assessment.

See also Note 34 Deferred income taxes on page 88 and Note 44 Legal actions and official proceedings on page 95.

18 EARNINGS PER SHARE

18.1 Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent company by the weighted average number of ordinary shares in issue during the year.

	2011	2010
Profit attributable to owners of the parent (EUR million)	1,769	1,300
Weighted average number of shares (thousands)	888,367	888,367
Basic earnings per share (EUR per share)	1.99	1.46

18.2 Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. At the end of 2011 Fortum had no diluting stock option schemes.

19 DIVIDEND PER SHARE

A dividend in respect of 2011 of EUR 1.00 per share, amounting to a total dividend of EUR 888 million based on the amount of shares registered as of 31 January 2012, is to be proposed at the Annual General Meeting on 11 April 2012. These Financial statements do not reflect this dividend.

The Annual General Meeting on 31 March 2011 decided to distribute a dividend of EUR 1.00 per share in respect of 2010 to the shareholders. The total dividend amounted to EUR 888 million based on the number of shares registered as of 5 April 2011. The dividend was paid on 12 April 2011.

The Annual General Meeting on 25 March 2010 decided to distribute a dividend of EUR 1.00 per share in respect of 2009 to the shareholders. The total dividend amounted to EUR 888 million based on the number of shares registered as of 30 March 2010. The dividend was paid on 8 April 2010.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47

20 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

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 2011

		Loans and receivables	Financial assets at fair value through profit and loss					
EUR million	Note	**Amortised cost**	**Hedge accounting, fair value hedges**	**Non-hedge accounting**	**Fair value recognised in equity, cash flow hedges**	**Available-for-sale financial assets**	**Finance leases**	**Total financial assets**
Financial instruments in non-current assets								
Other non-current assets	25	33				36		69
Derivative financial instruments	3							
Electricity derivatives				16	63			79
Interest rate and currency derivatives			162	101	5			268
Oil and other futures and forward contracts				49				49
Long-term interest-bearing receivables	26	1,189					7	1,196
Financial instruments in current assets								
Derivative financial instruments	3							
Electricity derivatives				45	186			231
Interest rate and currency derivatives				17	7			24
Oil and other futures and forward contracts				71				71
Trade receivables	28	689						689
Other short-term interest-bearing receivables	28	14					9	23
Cash and cash equivalents	29	731						731
Total		**2,656**	**162**	**299**	**261**	**36**	**16**	**3,430**

FINANCIAL ASSETS BY CATEGORIES 2010

		Loans and receivables	Financial assets at fair value through profit and loss					
EUR million	Note	**Amortised cost**	**Hedge accounting, fair value hedges**	**Non-hedge accounting**	**Fair value recognised in equity, cash flow hedges**	**Available-for-sale financial assets**	**Finance leases**	**Total financial assets**
Financial instruments in non-current assets								
Other non-current assets	25	31				41		72
Derivative financial instruments	3							
Electricity derivatives				30	3			33
Interest rate and currency derivatives			76	51	18			145
Oil and other futures and forward contracts				5				5
Long-term interest-bearing receivables	26	1,101					48	1,149
Financial instruments in current assets								
Derivative financial instruments	3							
Electricity derivatives				61				61
Interest rate and currency derivatives				34	5			39
Oil and other futures and forward contracts				48				48
Trade receivables	28	943						943
Other short-term interest-bearing receivables	28	46					11	57
Bank deposits	29	271						271
Cash and cash equivalents	29	285						285
Total		**2,677**	**76**	**229**	**26**	**41**	**59**	**3,108**

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47

FINANCIAL LIABILITIES BY CATEGORIES 2011

		Financial liabilities at fair value through profit and loss			Other financial liabilities			
EUR million	Note	**Hedge accounting, fair value hedges**	**Non-hedge accounting**	**Fair value recognised in equity, cash flow hedges**	**Amortised cost**	**Fair value**	**Finance leases**	**Total financial liabilities**
Financial instruments in non-current liabilities								
Interest-bearing liabilities	33				5,362	1,459 [1)]	24	6,845
Derivative financial instruments	3							
Electricity derivatives			7	4				11
Interest rate and currency derivatives			124	40				164
Oil and other futures and forward contracts			17					17
Financial instruments in current liabilities								
Interest-bearing liabilities	33				923		2	925
Derivative financial instruments	3							
Electricity derivatives			22	5				27
Interest rate and currency derivatives			124	5				129
Oil and other futures and forward contracts			63					63
Trade payables	39				443			443
Other liabilities	39				165			165
Total		**–**	**357**	**54**	**6,893**	**1,459**	**26**	**8,789**

FINANCIAL LIABILITIES BY CATEGORIES 2010

		Financial liabilities at fair value through profit and loss			Other financial liabilities			
EUR million	Note	**Hedge accounting, fair value hedges**	**Non-hedge accounting**	**Fair value recognised in equity, cash flow hedges**	**Amortised cost**	**Fair value**	**Finance leases**	**Total financial liabilities**
Financial instruments in non-current liabilities								
Interest-bearing liabilities	33				5,379	1,115 [1)]	26	6,520
Derivative financial instruments	3							
Electricity derivatives			46	130				176
Interest rate and currency derivatives			45	10				55
Oil and other futures and forward contracts			7					7
Financial instruments in current liabilities								
Interest-bearing liabilities	33				860		2	862
Derivative financial instruments	3							
Electricity derivatives			278	494				772
Interest rate and currency derivatives			386	5				391
Oil and other futures and forward contracts			44					44
Trade payables	39				435			435
Other liabilities	39				205			205
Total		**–**	**806**	**639**	**6,879**	**1,115**	**28**	**9,467**

1) *Fair value part of bonds in fair value hedge relationship.*

21 FINANCIAL ASSETS AND LIABILITIES BY FAIR VALUE HIERARCHY

Financial instruments that are measured in the balance sheet at fair value are presented according to following fair value measurement hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that is not based on observable market data (unobservable inputs).

See Note 1.30 Fair value estimation on page 49.

FINANCIAL ASSETS

		Level 1		Level 2		Level 3		Netting [3]		Total	
EUR million	Note	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
In non-current assets											
Available for sale financial assets [1]	25					36	41			36	41
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				94	90			–31	–87	63	3
Non-hedge accounting		3	19	29	95	1		–17	–84	16	30
Interest rate and currency derivatives											
Hedge accounting				167	94					167	94
Non-hedge accounting				101	51					101	51
Oil and other futures and forward contracts											
Non-hedge accounting		51	25	21				–23	–20	49	5
In current assets											
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				338	539			–152	–539	186	0
Non-hedge accounting		58	152	127	403			–140	–494	45	61
Interest rate and currency derivatives											
Hedge accounting				7	5					7	5
Non-hedge accounting				17	34					17	34
Oil and other futures and forward contracts											
Non-hedge accounting		143	200	22				–94	–152	71	48
Total		**255**	**396**	**923**	**1,311**	**37**	**41**	**-457**	**-1,376**	**758**	**372**

FINANCIAL LIABILITIES

		Level 1		Level 2		Level 3		Netting [3]		Total	
EUR million	Note	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
In non-current liabilities											
Interest-bearing liabilities	33			1,459	1,115 [4]					1,459	1,115
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				34	216	1	1	–31	–87	4	130
Non-hedge accounting		1	24	23	105		1 [2]	–17	–84	7	46
Interest rate and currency derivatives											
Hedge accounting				40	10					40	10
Non-hedge accounting				124	45					124	45
Oil and other futures and forward contracts											
Non-hedge accounting		33	27	7				–23	–20	17	7
In current liabilities											
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				157	1,033			–152	–539	5	494
Non-hedge accounting		60	156	102	616			–140	–494	22	278
Interest rate and currency derivatives											
Hedge accounting				5	5					5	5
Non-hedge accounting				124	386					124	386
Oil and other futures and forward contracts											
Non-hedge accounting		139	196	18				–94	–152	63	44
Total		**233**	**403**	**2,093**	**3,531**	**1**	**2**	**-457**	**-1,376**	**1,870**	**2,560**

[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 34 million (2010: 38), 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 2 million (2010: 3). The cumulative fair value change booked in Fortum's equity was EUR –2 million (2010: –1).

[2] *NASDAQ OMX Commodities Europe quotes the closest 5 years, for years beyond a systematic price estimate made by Fortum is used. Reason for transferring electricity derivatives from level 3 to level 2 is the maturity of contracts.*

[3] *Receivables and liabilities against electricity exchanges arising from standard derivative contracts with same delivery period are netted.*

[4] *Fair valued part of bond in fair value hedge relationship.*

22 INTANGIBLE ASSETS

EUR million	Goodwill 2011	Goodwill 2010	Other intangible assets 2011	Other intangible assets 2010	Total 2011	Total 2010
Cost 1 January	**301**	**285**	**412**	**372**	**713**	**657**
Translation differences and other adjustments	–7	16	–1	16	–8	32
Capital expenditure	–	–	27	19	27	19
Change in emission rights	–	–	13	13	13	13
Disposals	–	–	–2	–25	–2	–25
Reclassifications	–	–	0	17	0	17
Moved to Assets held for sale	–	–	–2	–	–2	–
Cost 31 December	**294**	**301**	**447**	**412**	**741**	**713**
Accumulated depreciation 1 January	**–**	**–**	**292**	**266**	**292**	**266**
Translation differences and other adjustments	–	–	–1	25	–1	25
Disposals	–	–	–2	–25	–2	–25
Reclassifications	–	–	0	4	0	4
Impairment charges	–	–	0	1	0	1
Depreciation for the period	–	–	19	21	19	21
Accumulated depreciation 31 December	**–**	**–**	**308**	**292**	**308**	**292**
Carrying amount 31 December	**294**	**301**	**139**	**120**	**433**	**421**

Key assumptions used in impairment testing related to future market development, utilisation of assets, finalisation of the investment programme and rate used for discounting

The goodwill is included in Russia segment and relates to the acquisition of OAO Fortum (former TGC-10). The goodwill has been tested for impairment by comparing recoverable amounts of the net operating assets of OAO Fortum, including goodwill, with their carrying amounts. The recoverable amounts were determined on the basis of value in use, applying discounted cash flow calculations.

Key assumptions made by management and used in calculating value in use were: expected development of Russian power market, utilization of power plants and other assets, forecasted maintenance and refurbishment investments as well as finalisation of the investment programme and rate used for discounting. The assumptions are based on expectations of future events that are believed to be reasonable under the circumstances. The process used to determine these assumptions has not changed from previous year.

The cash flows are based on business plan approved by the Board of Directors. The Russian wholesale power market was fully liberalised from the beginning of 2011. OAO Fortum's investment programme has been accelerated in light of the recovering demand and development of the Russian capacity market. The last new units are scheduled to commission by the end of 2014. The first three units started commercial operation in 2011. The discount rate is determined taking into account the risk profile of the country in which the cash flows are generated. Pre-tax discount rate used for Russia was 11% (2010: 10.4%). There have not been any major changes in the discount rate components or in the methods used to determine them.

As of 31 December 2011, the recoverable values were found to be in excess of their carrying values and therefore the related goodwill is not impaired. According to management a reasonably possible change in discount rate or in the level of earnings would not cause Russian cash generating unit's carrying amount to exceed its recoverable amount.

The main items in other intangible assets are costs for software products and software licenses, which are amortised over their useful lives. Other intangible assets also include bought emission rights and emission rights received free of charge, which are recognised to the lower of fair value and historical cost. The amount of emission rights in intangible assets is EUR 40 million (2010: 27).

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47

23 PROPERTY, PLANT AND EQUIPMENT

EUR million	Land, waterfall rights and tunnels	Buildings, plants and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Cost 1 January 2011	**3,243**	**3,098**	**13,937**	**198**	**1,649**	**22,125**
Translation differences and other adjustments	18	3	61	–1	–29	52
Increases through business combinations	15	40	91	0	0	146
Capital expenditure	1	54	125	4	1,197	1,381
Nuclear asset retirement cost	–	–	5	–	–	5
Disposals	–1	–16	–39	–1	1	–56
Reclassifications	1	229	710	5	–945	0
Moved to Assets held for sale	–	–103	–60	–5	–9	–177
Cost 31 December 2011	**3,277**	**3,305**	**14,830**	**200**	**1,864**	**23,476**
Accumulated depreciation 1 January 2011	**–**	**1,339**	**6,016**	**149**	**–**	**7,504**
Translation differences and other adjustments	–	18	107	–2	–	123
Increases through business combinations	–	37	83	0	–	120
Disposals	–	–10	–32	–1	–	–43
Depreciation for the period	–	106	473	8	–	587
Moved to Assets held for sale	–	–30	–18	–1	–	–49
Accumulated depreciation 31 December 2011	**–**	**1,460**	**6,629**	**153**	**–**	**8,242**
Carrying amount 31 December 2011	**3,277**	**1,845**	**8,201**	**47**	**1,864**	**15,234**

Property, plant and equipment has increased during 2011. The increase is mostly due to the ongoing investment programme in OAO Fortum and Heat segment's building of four CHP plants, which are estimated to be taken into commercial use during 2013.

For more information on credit risks regarding ongoing investments, see Note 3.9 Credit risk on page 58.

Property, plant and equipment that are subject to restrictions in the form of real estate mortgages amounts to EUR 285 million (2010: 292).

See Note 40 Pledged assets on page 94.

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 2010	**2,840**	**2,752**	**12,570**	**206**	**1,091**	**19,459**
Translation differences and other adjustments	392	201	1,091	14	100	1,798
Capital expenditure	1	83	221	1	897	1,203
Nuclear asset retirement cost	–	–	18	–	–	18
Disposals	–1	–13	–66	–	2	–78
Reclassifications	12	93	339	–21	–440	–17
Moved to Assets held for sale	–1	–18	–236	–2	–1	–258
Cost 31 December 2010	**3,243**	**3,098**	**13,937**	**198**	**1,649**	**22,125**
Accumulated depreciation 1 January 2010	**–**	**1,184**	**5,284**	**136**	**–**	**6,604**
Translation differences and other adjustments	–	84	449	9	–	542
Disposals	–	–8	–44	–	–	–52
Depreciation for the period	–	91	443	5	–	539
Impairment charges	–	2	–	–	–	2
Reclassifications	–	–7	3	–	–	–4
Moved to Assets held for sale	–	–7	–119	–1	–	–127
Accumulated depreciation 31 December 2010	**–**	**1,339**	**6,016**	**149**	**–**	**7,504**
Carrying amount 31 December 2010	**3,243**	**1,759**	**7,921**	**49**	**1,649**	**14,621**

23.1 Capitalised borrowing costs

	Buildings, plants and structures		Machinery and equipment		Advances paid and construction in progress		Total	
EUR million	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
1 January	**7**	**0**	**32**	**21**	**73**	**44**	**112**	**65**
Translation differences and other adjustments	0	0	–1	0	–3	4	–4	4
Increases	–	–	–	–	53	45	53	45
Reclassification	10	7	46	13	–56	–20	0	0
Depreciation	–1	0	–3	–2	–	–	–4	–2
31 December	**16**	**7**	**74**	**32**	**67**	**73**	**157**	**112**

New borrowing costs of EUR 53 million were capitalised in 2011 (2010: 45) for the OAO Fortum investment program, and for CHP plant projects in Poland, Estonia and Lithuania. The interest rate used for capitalisation varied between 3.2–9.7% (2010: 2.9–9.0%) depending on country and loan currency.

23.2 Capital expenditure [1)]

EUR million	Finland 2011	Finland 2010	Sweden 2011	Sweden 2010	Other countries 2011	Other countries 2010	Total 2011	Total 2010
Power								
Hydropower	9	10	60	42	–	–	69	52
Nuclear power	34	39	–	–	–	–	34	39
Fossil-based power	8	5	–	–	–	–	8	5
Renewable power	–	–	16	–	–	–	16	–
Other	1	1	2	–	1	–	4	1
Total Power	**52**	**55**	**78**	**42**	**1**	**–**	**131**	**97**
Heat								
Fossil-based heat	5	16	5	24	8	39	18	79
Fossil-based power	2	5	–	–	2	–	4	5
Renewable	22	14	84	57	56	59	162	130
District heating network	9	19	32	36	26	22	67	77
Other	12	–	34	12	0	1	46	13
Total Heat	**50**	**54**	**155**	**129**	**92**	**121**	**297**	**304**
Distribution	**118**	**73**	**157**	**128**	**14**	**12**	**289**	**213**
Electricity Sales	**5**	**0**	**–**	**–**	**–**	–	**5**	**0**
Other	**14**	**8**	**2**	**1**	**0**	**0**	**16**	**9**
Total excluding Russia segment	**239**	**190**	**392**	**300**	**107**	**133**	**738**	**623**
Russia								
Fossil-based power							627	544
Fossil-based heat							43	21
Other							0	34
Total Russia							**670**	**599**
Total including Russia segment							**1,408**	**1,222**

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

Maintenance investments during 2011 in property, plant and equipment were EUR 202 million (2010: 164). Investments due to requirements of legislation were EUR 192 million (2010: 148). Investments increasing productivity were EUR 245 million (2010: 151) and growth investments were EUR 769 million (2010: 759).

23.2.1 Power

In Finland, Fortum invested EUR 38 million (2010: 42) into the Loviisa nuclear power plant. Fortum continued to invest EUR 18 million (2010: 23) into several hydro projects, focusing on growth and productivity. The biggest of these was Montta in Finland, EUR 4 million (2010: 7). Power has also participated in building the Blaiken Wind project, EUR 13 million (2010: 6). Power segment invested additionally EUR 63 million (2010: 32) into refurbishment type investments. Investments for CO_2 free production were EUR 103 million (2010: 91).

23.2.2 Heat

In 2011 four new CHP plants were under construction; Klaipeda, Brista 2, Järvenpää and Jelgava. The plants are planned to be commissioned in 2013. Growth investments in Heat segment totalled EUR 193 million (2010: 202). Refurbishment and other investments were EUR 103 (2010: 102). This amount consists mainly of investments in district heat networks, new connections as well as the maintenance of existing CHP plants and measures defined by legal requirements. Investments for CO_2 free production were EUR 152 million (2010: 123).

23.2.3 Distribution

Distribution invested EUR 289 million (2010: 213) in reliability of power delivery, maintenance and new investments in Finland, Sweden, Norway and Estonia.

The pilot rollout of smart metering to network customers in Finland started in October 2010. In 2011 Fortum invested some EUR 37 million (2010: 9) in the Finnish smart metering project.

23.2.4 Russia

OAO Fortum has an extensive investment programme aiming to increase its power capacity with 2,300 MW. During 2011 EUR 558 million (2010: 540) was invested in this programme. The value for the remaining part of the programme is estimated to be EUR 0.9 billion from January 2012 onwards. The first three units of Fortum's extensive investment programme in Russia started commercial operation in 2011. Tyumen CHP-1 in western Siberia started capacity sales at the beginning of February and Chelyabinsk CHP-3 in the Urals region at the beginning of June. The new capacity in Tobolsk was taken into commercial operation on 1 October 2011. Altogether, Fortum's extensive investment programme in Russia consists of eight new units.

23.3 Assets leased in by finance lease agreements

EUR million	2011	2010
Acquisition cost	39	41
Accumulated depreciation at 1 January	–14	–14
Depreciation charge for the year	–2	–2
Total	**23**	**25**

The assets leased by financial lease agreements are classified as machinery and equipment.

Fortum also acts as a lessor under financial lease agreements and has leased out property, plant and equipment for EUR 42 million (2010: 50), which are not included in property, plant and equipment in the consolidated financial statements.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47

23.4 Assets leased out by operating lease agreements

EUR million	2011	2010
Acquisition cost	11	12
Accumulated depreciation at 1 January	–2	–3
Depreciation charge for the year	–1	–2
Total	**8**	**7**

24 PARTICIPATIONS IN ASSOCIATED COMPANIES AND JOINT VENTURES

EUR million	2011	2010
Historical cost		
1 January	1,661	1,669
Translation differences and other adjustments	–6	63
Acquisitions	9	6
New share issues and shareholders' contributions	16	20
Reclassifications	–4	–
Divestments	–38	–97
Moved to Assets held for sale	–1	–
Historical cost 31 December	**1,637**	**1,661**
Equity adjustments to participations in associates and joint ventures		
1 January	500	519
Translation differences and other adjustments	4	41
Share of profits of associates	91	62
Reclassifications	4	–
Divestments	–108	8
Dividends received	–108	–61
OCI items associated companies	–1	–69
Equity adjustments 31 December	**382**	**500**
Total	**2,019**	**2,161**

The carrying amount of investments in associated companies at the end of 2011 was EUR 2,019 million (2010: 2,161). Fortum owns shares in three (2010: two) companies classified as joint ventures. The total carrying value of these joint ventures was EUR 62 million (2010: 54).

24.1 Investments

Teollisuuden Voima Oyj's (TVO) Annual General meeting in March 2011 decided to raise the company's share capital by EUR 65 million (2010: 79.3) of which Fortum's share is EUR 16 million (2010: 19.8). The increase in Fortum's participation in TVO was paid in November 2011.

During 2010 Fortum acquired 40% of the shares in Blaiken Vind AB from Skellefteå Kraft AB. Blaiken Vind AB is a joint venture planning to start construction of a wind farm in the Blaiken region in northern Sweden. The wind farm will have a maximum of 100 wind turbines with a total capacity of 250 MW. Its estimated annual production when the construction is completed in year 2015 is 600–720 GWh. The total investments during the project will amount to a maximum of EUR 400 million, of which Fortum's share is 40%.

24.2 Divestments

In the first quarter of 2011 Electricity Sales segment divested its 30.78% share in Energiapolar Oy. In the fourth quarter of 2011 Electricity Sales segment divested its 24.5% share in Ishavskraft AS.

In January 2011 Fortum, the Finnish State (Ministry of Employment and The National Emergency Supply Agency) and Ilmarinen Mutual Pension Insurance Company came to a preliminary agreement according to which Fortum was going to sell its 25% shareholding in the Finnish transmission system operator Fingrid Oyj. The divestment was completed on 19 April 2011. The State bought approximately 81% and Ilmarinen bought approximately 19% of Fortum's Fingrid Oyj shares. The sales price for the total amount of shares was EUR 325 million and consequently, Fortum booked a gain of EUR 192 million in addition to the share of profits for the first quarter amounting to EUR 8 million. The shares were part of the Distribution segment and the gain is recognised in the Distribution segment. Fortum sold its holding in Fingrid Oyj as a result of the EU's third energy market package that calls for the separation of high voltage transmission and power generation. The package entered into force in September 2009.

In early February 2010 Distribution business area divested Fortum's 49% shareholding in Karlskoga Energi & Miljö AB. In the first quarter of 2010 Heat division divested Fortum's 20.4% shareholding in Swedegas AB and Russia division divested OAO Fortum's 49% shareholding in Kurgan Generating Company. In the third quarter Russia division divested Fortum's approximately 31% shareholding in St. Petersburg Sales Company.

24.3 Share of profits from associates

Some of the principal associates present their financial statements according to local accounting principles. Fortum makes adjustments to the reported numbers to ensure consistency with policies adopted by the Group. If more recent information is not available, the share of profit of associated companies is based on the previous quarterly information.

Fortum's share of profits from associates for 2011 amounts to EUR 91 million (2010: 62), of which Hafslund ASA represents EUR 23 million (2010: 28), TGC-1 EUR 30 million (2010: 7) and Gasum Oy EUR 16 million (2010: 27). Share of profits from associates also includes Fortum's share of the Swedish nuclear associates Forsmarks Kraftgrupp AB and OKG AB with EUR 7 million (2010: –19), of which EUR 17 million (2010: –11) is due to accounting of nuclear related assets and liabilities.

See Note 35 Nuclear related assets and liabilities on page 89.

According to Fortum Group accounting policies the share of profits from Hafslund including REC will be included in Fortum Group figures based on the previous quarter information since updated interim information is not normally available. Q4 includes Fortum's share of Hafslund's Q3 profit. Hafslund made write-downs on REC shares in Q2 and Q3 2011. In Q3 2011 Fortum has changed accounting principle for Hafslund (see Note 1.3.2 Associates and joint ventures). After the write-down in Q2 based on REC closing price 30 June 2011, NOK 9.28, Fortum and Hafslund have the same basis for future fair value changes in REC.

In 2011 write-downs on REC shares are included in Fortum's Q2 and Q4 closings amounting to EUR 20 million and EUR 16 million respectively, cumulatively EUR 36 million. In December 2010 Hafslund sold its fully-owned subsidiary Hafslund Fibernett AS. Fortum recognised EUR 38 million in relation to Hafslund's divestment of Hafslund Fibernett AS shares as a part of the share of profit of associates and joint ventures in Q1 2011.

24.4 Dividends received

Total dividends received amounted to EUR 108 million (2010: 61), of which dividend from Hafslund was EUR 64 million (2010: 19) and EUR 23 million (2010: 26) from Gasum Oy.

24.5 Principal associated companies

EUR million			Participation %		Carrying amount in Group	
Company	**Segment**	**Domicile**	**2011**	**2010**	**2011**	**2010**
Kemijoki Oy	Power	Finland	18	18	230	237
Teollisuuden Voima Oyj (TVO)	Power	Finland	26	26	272	254
OKG AB	Power	Sweden	46	46	142	134
Forsmarks Kraftgrupp AB	Power	Sweden	26	26	116	121
Gasum Oy	Heat	Finland	31	31	116	123
Fingrid Oyj	Distribution	Finland	–	25	–	115
Territorial Generating Company 1 (TGC-1)	Russia	Russia	26	26	452	423
Hafslund ASA	Other	Norway	34	34	394	440
Others					297	314
Total					**2,019**	**2,161**

Fortum owns 63.8% of the hydro shares and 15.4% of the monetary shares in Kemijoki Oy. Each owner of hydro shares is entitled to the hydropower production in proportion to its hydro shareholding. Fortum's total ownership is 17.5% of the share capital. Since Fortum has significant influence due to its representation on the Board of Directors and participation in policy-making processes, Kemijoki Oy is accounted for as an associated company.

TVO has three series of shares which entitle the shareholders to electricity produced in the different power plants owned by TVO. Series A entitles to electricity produced in nuclear power plants Olkiluoto 1 and 2, series B entitles to electricity in the nuclear power plant presently being built, Olkiluoto 3, and series C entitles to electricity produced in TVO's share of the thermal power plant Meri-Pori. The Meri-Pori power plant is a jointly controlled asset between Fortum and TVO. Fortum accounts for its 54.55% of the assets and TVO for 45.45%.

See also Jointly controlled assets in Note 1.12.1 in accounting principles on page 44.

Fortum owns 25.7% of the shares in Territorial Generating Company 1 (TGC-1). TGC-1 was formed in late 2006 by mergers of several Russian companies. According to Fortum's accounting policy the share of TGC-1's profits is recognised based on the previous quarter information.

During 2010 Fortum changed its accounting practice for recognition of TGC-1 results. TGC-1 has reversed impairment losses booked prior to Fortum's ownership in TGC-1. From 2010 onwards Fortum eliminates such reversals and assesses the need for impairment separately.

TGC-1 has changed its reporting schedule for IFRS financial information during 2010. From 2010 onwards TGC-1 publishes IFRS interim financial statements quarterly. Fortum's 2010 results includes Fortum's share of TGC-1's profits for the second half of 2009 as well as for the first three quarters of 2010.

Market value, based on market quotations of Fortum's shareholding in the listed principal associated companies on 31 December 2011 (Hafslund ASA and TGC-1) was EUR 718 million (2010: 1,113), of which Hafslund was EUR 498 million (2010: 595) and TGC-1 was EUR 220 million (2010: 518). The market quotation for the TGC-1 share is effected by the low liquidity of the TGC-1 shares in the Russian stock exchanges. During 2011 trading volumes of TGC-1 shares in relation to the number of shares of the company were approximately 8.4% in Russian stock exchanges.

ASSETS, LIABILITIES, SALES AND PROFIT AND LOSS OF THE GROUP'S PRINCIPAL ASSOCIATES

EUR million Company	Domicile	Assets	Liabilities	Sales	Profit/ loss	Ownership, %	Votes, %
Kemijoki Oy [1) 3)]	Finland	454	341	41	–7	18	18
Teollisuuden Voima Oyj [1) 2)]	Finland	5,915	4,836	274	6	26	26
OKG AB [1) 3)]	Sweden	2,313	1,880	569	1	46	46
Forsmarks Kraftgrupp AB [1) 3)]	Sweden	2,073	1,619	614	43	26	26
Gasum Oy [2)]	Finland	753	374	948	52	31	31
Territorial Generating Company 1 (TGC-1) [2)]	Russia	3,195	1,324	971	67	26	26
Hafslund ASA [2)]	Norway	3,287	2,216	1,324	–63	34	33

[1)] *Power plants are often built jointly with other power producers. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership or other agreements and each owner is liable for an equivalent portion of costs. The associated companies are not profit making, since the owners purchase electricity at production cost including interest cost and production taxes. (See also Note 12 Materials and services on page 68 and Note 45 Related party transactions on page 96).*

[2)] *Based on September 2011 figures.*

[3)] *Based on December 2010 figures.*

24.6 Transactions and balances

ASSOCIATED COMPANY TRANSACTIONS

EUR million	2011	2010
Sales to associated companies	21	63
Interest on associated company loan receivables	34	39
Purchases from associated companies	661	764

Purchases from associated companies are purchases of nuclear and hydro power at production cost including interest costs and production taxes.

See Note 12 Materials and services on page 68.
See Note 45 Related party transactions on page 96.

ASSOCIATED COMPANY BALANCES

EUR million	2011	2010
Receivables from associated companies		
Long-term interest-bearing loan receivables	1,178	1,071
Trade receivables	11	22
Other receivables	7	20
Liabilities to associated companies		
Long-term loan payables	223	213
Trade payables	14	36
Other payables	13	15

Long-term interest-bearing receivables are mainly receivables from Swedish nuclear companies, OKG AB and Forsmarks Kraftgrupp AB, EUR 1,110 million (2010: 1,001).

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	2011	2010
Purchases	1	1
Receivables from joint ventures	14	6
Other payables to joint ventures	10	0

Receivables from joint ventures included long-term interest-bearing loan receivables of EUR 9 million (2010: 0).

25 OTHER NON-CURRENT ASSETS

EUR million	2011	2010
Available for sale financial assets	36	41
Other	33	31
Total	**69**	**72**

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 34 million (2010: 38), 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 2 million (2010: 3). The cumulative fair value change booked in Fortum's equity was EUR –2 million (2010: –1).

26 LONG-TERM AND SHORT-TERM INTEREST-BEARING RECEIVABLES

EUR million	2011	2010
Long-term loan receivables	1,189	1,101
Finance lease receivables	7	48
Total long-term interest-bearing receivables	**1,196**	**1,149**
Other short-term interest-bearing receivables	14	46
Short-term finance lease receivables	9	11
Total short-term interest-bearing receivables [1]	**23**	**57**
Total	**1,219**	**1,206**

[1] *Included in trade and other receivables in the balance sheet, see Note 28 on page 83.*

Long-term loan receivables include receivables from associated companies EUR 1,178 million (2010: 1,071), mainly from Swedish nuclear companies, OKG AB and Forsmarks Kraftgrupp AB, EUR 1,110 million (2010: 1,001). These companies are mainly funded with shareholder loans, pro rata each shareholder's ownership. The increase is related to investments made according to plan in OKG AB and Forsmarks Kraftgrupp AB.

Long-term loan receivables also include receivables from Teollisuuden Voima Oyj (TVO) amounting to EUR 45 million (2010: 45). Olkiluoto 3, the nuclear power plant being built by the associated company TVO, is funded through external loans, share issues and shareholder loans according to shareholders' agreement between the owners of TVO. In March 2009, TVO's shareholders committed to providing a EUR 300 million subordinated shareholders' loan to TVO. The facility will be available until the end of 2013. Fortum's share of this commitment is at maximum EUR 75 million.

For further information regarding credit risk management, see Note 3.9 Credit risk on page 58.

26.1 Interest-bearing receivables

EUR million	Effective interest rate %	Carrying amount 2011	Repricing under 1 year	Repricing 1–5 years	Repricing over 5 years	Fair value 2011	Carrying amount 2010	Fair value 2010
Long-term loan receivables	2.7	1,191	1,180	2	9	1,201	1,103	1,112
Finance lease receivables	6.5	16	13	3	–	16	59	73
Total long-term interest-bearing receivables [1)]	**2.8**	**1,207**	**1,193**	**5**	**9**	**1,217**	**1,162**	**1,185**
Other short-term interest-bearing receivables	4.9	12	12	–	–	12	44	46
Total interest-bearing receivables	**2.8**	**1,219**	**1,205**	**5**	**9**	**1,229**	**1,206**	**1,231**

[1)] *Including current portion of long-term receivables EUR 2 million (2010: 2) and short-term finance lease receivables EUR 9 million (2010: 11).*

26.2 Finance lease receivables

Fortum owns assets (mainly CHP and heating plants) that it leases to customers under financial leasing agreements in Finland and Norway. These assets are recorded at the gross investment cost in the lease, less unearned financial income. The average lease term is approximately 7 years.

PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENT RECEIVABLES

EUR million	2011	2010
Gross investment in finance lease contracts	16	78
Less unearned finance income	0	19
Total	**16**	**59**

MATURITY OF FINANCE LEASE RECEIVABLES

EUR million	2011	2010
Gross investment		
Less than 1 year	9	15
1–5 years	5	42
Over 5 years	2	21
Total	**16**	**78**

MATURITY OF PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENT RECEIVABLES

EUR million	2011	2010
Less than 1 year	9	12
1–5 years	5	30
Over 5 years	2	17
Total	**16**	**59**

No contingent rents were recognised in income statement neither in 2011 nor in 2010.

27 INVENTORIES

EUR million	2011	2010
Nuclear fuel	109	84
Coal	203	129
Oil	48	53
Biofuels	95	44
Other inventories	73	77
Total	**528**	**387**

No write downs have been booked related to inventories neither in 2011 nor in 2010.

28 TRADE AND OTHER RECEIVABLES

EUR million	2011	2010
Trade receivables	689	943
Income tax receivables	55	18
Accrued interest income	6	9
Accrued income and prepaid expenses	45	62
Other receivables	202	195
Short-term finance lease receivables [1)]	9	11
Other short-term interest-bearing receivables [1)]	14	46
Total	**1,020**	**1,284**

[1)] *See also Note 26 Long-term and short-term interest-bearing receivables on page 82.*

The management considers that the carrying amount of trade and other receivables approximates their fair value.

28.1 Trade receivables

AGEING ANALYSIS OF TRADE RECEIVABLES

	2011		2010	
EUR million	Gross	Impaired	Gross	Impaired
Not past due	630	3	860	2
Past due 1–90 days	63	6	88	6
Past due 91–180 days	6	2	8	6
Past due more than 181 days	58	57	53	52
Total	**757**	**68**	**1,009**	**66**

Impairment losses recognised in the income statement were EUR 10 million (2010: 27), of which EUR 2 million (2010: 26) are impairment losses recognised in OAO Fortum Group. On 31 December 2011, trade receivables of EUR 68 million (2010: 66) were impaired and provided for, of which EUR 57 million (2010: 57) refers to OAO Fortum Group.

For information regarding impairment losses by segment, see Note 5 Segment reporting on page 60.

TRADE RECEIVABLES BY CURRENCY

EUR million	2011	2010
EUR	183	276
SEK	347	461
RUB	144	150
NOK	28	47
PLN	31	33
Other	24	42
Total	**757**	**1,009**

Trade receivables are arising from a large number of customers mainly in EUR and SEK mitigating the concentration of risk. Fortum held on 31 December 2011 bank guarantees as collaterals for trade receivables amounting to EUR 0.7 million (2010: 5).

For further information regarding credit risk management and credit risks, see 2.4 Counterpart risks on page 25 in the Operating and financial review and Note 3.9 Credit risk on page 58.

29 LIQUID FUNDS

EUR million	2011	2010
Cash at bank and in hand	191	220
Bank deposits with maturity under 3 months	540	65
Cash and cash equivalents	731	285
Bank deposits with maturity more than 3 months	–	271
Total	**731**	**556**
Cash and cash equivalents included in Assets held for sale	16	0
Total	**747**	**556**

Short-term and long-term bank deposits include bank deposits held by OAO Fortum amounting to EUR 194 million and EUR 0 million respectively (2010: 65 and 271 respectively). At the year end 2011 OAO Fortum's short-term deposits included 164 million in euros and 30 million in Russian roubles. The funds in OAO Fortum are committed to the investment program to further increase OAO Fortum's electricity production capacity. The bank deposits in euros held by OAO Fortum are hedging future payments in euros.

Assets held for sale include cash balances of EUR 16 million (2010: 0). When liquid funds in assets held for sale are included, the total amount of liquid funds is EUR 747 million.

Maturity of cash and cash equivalents is under 3 months.

For further information regarding credit risk management and credit risks, see 2.4 Counterpart risks on page 25 in the Operating and financial review and Note 3.9 Credit risk on page 58.

30 SHARE CAPITAL

	2011		2010	
EUR million	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 2011, 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 2011 Fortum Corporation's share capital, paid in its entirety and entered in the trade register, was EUR 3,046,185,953.00.

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

Fortum Corporation's shares are listed on NASDAQ OMX Helsinki. The trading code is FUM1V. Fortum Corporation's shares are in the Finnish book entry system maintained by Euroclear Finland Ltd.

At the end of 2011, the Finnish State owned 50.76% of the Company's shares. The Finnish Parliament has authorised the Government to reduce the Finnish State's holding in Fortum Corporation to no less than 50.1% of the share capital and voting rights.

At the end of 2011, the President and CEO and other members of the Fortum Management Team owned 253,276 shares (2010: 208,333), representing approximately 0.03% (2010: 0.02%) of the shares in the Company.

Details on the President and CEO and other members of the Fortum Management Team's shareholdings and interest in the equity incentive schemes is presented in Note 14 Employee costs and management remuneration on page 68. A description of shares, share capital and shareholders in Fortum is shown in the Operating and financial review on page 27.

30.1 Treasury shares

At the end of 2011, Fortum Corporation did not own its own shares and the Board of Directors of Fortum Corporation has no unused authorisations from the General Meeting of shareholders to repurchase the company's own shares.

30.2 Convertible bond loans, bonds with warrants and unused authorisations

Fortum Corporation has not issued any convertible bonds or bonds with attached warrants, which would entitle the bearer to subscribe for Fortum shares. The Board of Directors of Fortum Corporation has no unused authorisations from the General Meeting of shareholders to issue convertible bond loans or bonds with warrants or increase the company's share capital.

31 EMPLOYEE BONUS SYSTEM, PERSONNEL FUND AND INCENTIVE SCHEMES

31.1 Employee bonus system

Fortum's short-term incentive system (called bonus system below) exists to support the Group's values, the achievement of financial targets and structural changes and to secure an alignment between the performance targets of the individual employee and the targets of the Group and business division. All Fortum employees are covered by the bonus system except for some employee groups in Poland and Russia.

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 maximum bonus level for the senior management is 40% of the person's annual salary including fringe benefits.

For executives with division responsibilities, the scheme 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.

For further information on bonus costs for senior management, see Note 14 Employee costs and management remuneration on page 68.

31.2 Fortum Personnel Fund

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

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

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

The 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 2011 and the fund then had a total of 2,805 members (2010: 2,875). At the end of April 2011 Fortum contributed EUR 4.7 million (2010: 1.7) to the personnel fund as an annual profit-sharing bonus based on the financial results of 2010. The combined amount of members' shares in the fund was EUR 24.4 million (2010: 22.0).

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

31.3 Long-term incentive schemes

Fortum's share bonus system is a performance-based, long-term incentive (LTI) arrangement. The share bonus system is divided into five/six-year share plans, within which participants have the possibility to earn rights to company shares. A new plan commences annually if the Board of Directors so decides. The arrangement was launched in 2003 to support the achievement of the Group's long-term goals by attracting and retaining key personnel. In January 2008, the arrangement was further developed (called new LTI system below). The last plan under the previous system (called previous LTI system below) was launched in 2007.

At present, approximately 140 managers, all of whom have been elected by the Board of Directors, are participants in at least one of the six on-going annual LTI plans.

31.3.1 Previous LTI system

Plans (on-going plans 2006–2011 and 2007–2012) under the previous arrangement start with a three-year earning period, during which the person earns annual bonus based on the performance of the Group, the relevant division and the achievements of the individual participant. After the earning period, following the announcement of the Group's annual results for the last calendar year, the amount of the potential reward as a calculative amount of share rights is decided by the Board of Directors. The value of share rights allocated to an individual participant cannot at that time exceed the participant's one-year salary including fringe benefits.

The earning period of the previous arrangement is followed by an approximately three year lock-up period which ends at the cash-settlement of the earned reward provided that the participant remains employed by the Group. The potential reward under each annual LTI plan is adjusted during the lock-up period by any dividends paid up until the settlement date. The participant has approved that the earned reward will be used to acquire Fortum shares in the name of the participant deducted by income tax and statutory employment related expenses and insurance contributions payable by the participant on the reward.

31.3.2 New LTI system

The share bonus plans (on-going plans 2008–2012, 2009–2013, 2010–2015 and 2011–2016) launched under the new LTI system run over a five or six-year period. Each share bonus plan begins with a three-year earning period during which participants may earn share rights if the earnings criteria set by the Board of Directors are fulfilled. After the earning period, income tax and statutory employment related expenses are deducted from the reward and the net reward is used to acquire Fortum shares in the name of the participant. The value in shares given to a participant after the three years earning period cannot at that time exceed the participant's one-year salary including fringe benefits following Cabinet Committee's Economic Policy.

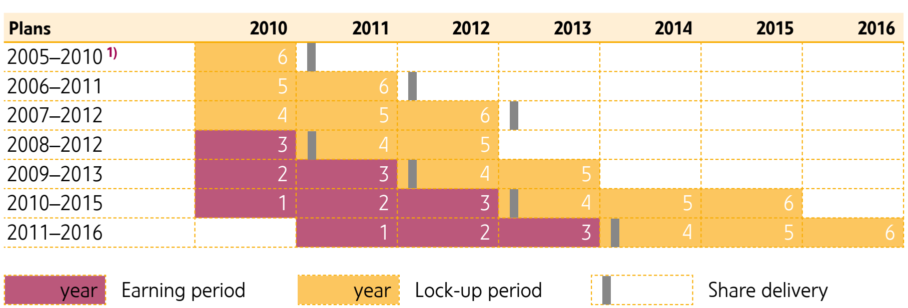
Earning period is followed by a two or three-year lock-up period. During the lock-up period the shares may not be sold, transferred, pledged or disposed in any other way. Dividends and other financial returns paid on the shares during the lock-up period are, however, not subject to restrictions. The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

31.3.3 Accounting for LTI systems

The total LTI obligation including accrual for social charges at the end of the year 2011 was EUR 12 million (2010: 20). The expense recorded as employee costs for the period was EUR 10 million (2010: 5) netted with the change in the fair values of the hedge arrangements.

Under the previous LTI system, in order to hedge the Group against the changes in the fair values of the potential rewards, the Group has entered into share forward transactions which are settled in cash. The change during year 2011 in the fair values of the ongoing hedge arrangements amounted to EUR 0 million (2010: 2). Under the new LTI system Fortum has no obligation to hedge or otherwise protect the value of the shares for the participants during the lock-up period. If the value of shares decrease or increase during the lock-up period, the potential loss or gain is carried by the participants.

SHARE BONUS SYSTEMS



1) *Plan 2005–2010 has ended and the shares were granted to the participants in February 2011.*

MOVEMENTS IN THE OUTSTANDING NUMBER OF CALCULATIVE SHARE RIGHTS GRANTED

	Plan 2008–2012 1)	Plan 2007–2012	Plan 2006–2011	Plan 2005–2010
Outstanding at the beginning of the period – 1 January 2011	**0**	**335,283**	**64,165**	**250,874**
Granted during the period	150,436			
Dividend adjustments during the period	N/A	13,218	2,502	
Payments during the period	N/A	–35,622	–6,512	–250,874
Cancelled during the period	0	–307		
Outstanding at the end of the period – 31 December 2011	**150,436**	**312,572**	**60,155**	**0**
Grant date	7.3.2011	8.2.2010	9.2.2009	8.2.2008
Grant price, EUR	22.08	18.18	15.19	27.54
Number of shares / share rights granted	150,436	339,398	76,134	303,153
Estimated departures, %	4.52	4.52	4.52	4.52
Fortum share price at the end of the grant year, EUR	16.49	22.53	18.97	15.23

1) *For the new LTI arrangements actual granted shares are presented (net of taxes).*

32 NON-CONTROLLING INTERESTS

EUR million		2011	2010
AB Fortum Värme Holding samägt med Stockholms stad Group	Sweden	429	358
OAO Fortum Group	Russia	61	138
Tartu Energi Group	Estonia	15	13
Other		24	23
Total		**529**	**532**

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. EUR 24 million of the increase in minority in Fortum Värme samägt med Stockholms stad comes from the the divestment of Fortum Värme's heat business outside Stockholm area, minority's share of the gain (EUR 32 million) and decrease in minority due to the divestment (EUR 8 million).

Non-controlling interest part in OAO Fortum has decreased from 5.49% 31 December 2010, to 2.45% 31 December 2011, due to received payment in OAO Fortum shares from the divestment of St. Petersburg Sales Company.

For more information, see Note 8 Acquisitions and disposals on page 66.

33 INTEREST-BEARING LIABILITIES

EUR million	2011	2010
Bonds	4,466	4,281
Loans from financial institutions	947	845
Finance lease liabilities	24	26
Other long-term interest-bearing debt	1,408	1,368
Total long-term interest-bearing debt	**6,845**	**6,520**
Current portion of long-term bonds	393	223
Current portion of loans from financial institutions	246	88
Current portion of other long-term interest-bearing debt	30	1
Current portion of financial lease liabilities	2	2
Commercial papers	122	534
Other short-term interest-bearing debt	132	14
Total short-term interest bearing debt	**925**	**862**
Total	**7,770**	**7,382**

INTEREST-BEARING DEBT

EUR million	Effective interest rate %	Carrying amount 2011	Repricing under 1 year	Repricing 1–5 years	Repricing over 5 years	Fair value 2011	Carrying amount 2010	Fair value 2010
Bonds	4.5	4,859	740	2,703	1,416	5,218	4,504	4,844
Loans from financial institutions	4.5	1,193	922	–	271	1,272	933	966
Other long-term interest-bearing debt [1]	2.4	1,464	1,452	7	5	1,496	1,411	1,426
Total long-term interest-bearing debt [2]	**4.1**	**7,516**	**3,114**	**2,710**	**1,692**	**7,986**	**6,848**	**7,236**
Commercial papers	2.9	122	122	–	–	122	534	535
Other short-term interest-bearing debt	0.6	132	132	–	–	132	0	0
Total short-term interest-bearing debt	**1.7**	**254**	**254**	**0**	**0**	**254**	**534**	**535**
Total interest-bearing debt [3]	**4.0**	**7,770**	**3,368**	**2,710**	**1,692**	**8,240**	**7,382**	**7,771**

[1] *Includes loans from State Nuclear Waste Management Fund and Teollisuuden Voima Oyj EUR 887 million (2010: 835), financial leases EUR 26 million (2010: 28), loans from Finnish pension institutions EUR 258 million (2010: 273) and other loans EUR 293 million (2010: 275).*

[2] *Including current portion of long-term debt.*

[3] *The average interest rate on loans and derivatives on 31 December 2011 was 4.4% (2010: 3.5%).*

The interest-bearing debt increased in 2011 by EUR 388 million to EUR 7,770 million (2010: 7,382). The amount of short-term financing decreased with EUR 280 million (mainly Commercial Papers), and at the end of the year the amount of short term financing was EUR 254 million (2010: 534).

During the first quarter Fortum increased the amount of re-borrowing from the Finnish nuclear waste fund by EUR 52 million to EUR 887 million. In the same quarter Fortum also signed two long-term transactions; a 10 year loan of SEK 1,786 million from European Investment Bank and a 7 year loan of SEK 625 million from Nordic Investment Bank. These loans were fully drawn down during April.

During the second quarter Fortum Oyj repaid a maturing SEK 2 billion bond and issued a new ten year EUR 500 million fixed rate bond under its Euro Medium-Term Note Program. OAO Fortum raised a bilateral RUB 1.5 billion bank loan, to finance its investment program.

In July Fortum Oyj signed a new syndicated revolving credit facility of EUR 2.5 billion to refinance previous syndicated revolving credit facilities of EUR 1.2 and EUR 1.5 billion. The total amount undrawn committed credit facilities is approximately EUR 2.7 billion. Also during the third quarter OAO Fortum raised a bilateral RUB 2 billion bank loan, to finance its investment program.

During the last quarter OAO Fortum repaid the RUB 1.5 billion bank loan raised earlier in 2011.

For more information please see Note 3 Financial risk management on page 52, Note 40 Pledged assets on page 94 and Note 43 Contingent liabilities on page 95.

33.1 Bond issues

Issued / Maturity	Interest basis	Interest rate %	Effective interest %	Currency	Nominal million	Carrying amount EUR million
Fortum Oyj EUR 6,000 million EMTN Programme [1]						
2003 / 2013	Fixed	5.000	5.164	EUR	500	499
2006 / 2016	Fixed	4.500	4.615	EUR	750	756
2007 / 2012	Floating	Stibor 3M+0.15		SEK	3,500	393
2007 / 2014	Fixed	4.700	4.764	SEK	2,600	291
2009 / 2014	Fixed	4.625	4.714	EUR	750	748
2009 / 2019	Fixed	6.000	6.095	EUR	750	810
2009 / 2014	Fixed	5.250	5.400	NOK	500	64
2009 / 2017	Fixed	6.125	6.240	NOK	500	64
2010 / 2015	Floating	Stibor 3M+0.95		SEK	3,100	347
2010 / 2015	Fixed	3.125	3.235	SEK	3,100	346
2011 / 2021	Fixed	4.000	4.123	EUR	500	541
OAO Fortum (former TGC-10)						
2008 / 2013	Fixed	9.750	9.988	RUB	5,000	0
Total outstanding carrying amount 31 December 2011						**4,859**

[1] *EMTN = Euro Medium Term Note*

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47

33.2 Finance lease liabilities

On 31 December 2011 Fortum had a small number of finance lease agreements for machinery and equipment.

No new leasing commitments were entered into in 2011 or 2010.

PRESENT VALUE OF FINANCE LEASE LIABILITIES

EUR million	2011	2010
Minimum lease payments	30	32
Less future finance charges	4	4
Total	**26**	**28**

MATURITY OF MINIMUM LEASE PAYMENTS

EUR million	2011	2010
Less than 1 year	3	2
1–5 years	27	30
Over 5 years	–	–
Total	**30**	**32**

MATURITY OF FINANCE LEASE LIABILITIES

EUR million	2011	2010
Less than 1 year	2	2
1–5 years	24	26
Over 5 years	–	–
Total	**26**	**28**

34 DEFERRED INCOME TAXES

THE MOVEMENT IN DEFERRED TAX ASSETS AND LIABILITIES DURING 2011

EUR million	1 Jan 2011	Charged to income statement	Charged to other comprehensive income	Exchange rate differences reclassifications and other changes	Acquisitions, disposals and assets held for sale	31 Dec 2011
Deferred tax assets						
Property, plant and equipment	16	5	–	–	–	21
Provisions	52	–9	–	–	–	43
Tax losses and tax credits carry-forward	79	5	–	–	–	84
Derivative financial instruments	238	–	–	–238	–	0
Other	36	4	–	–1	3	42
Total deferred tax assets	**421**	**5**	**–**	**–239**	**3**	**190**
Offset against deferred tax liabilities	–280	2	–	238	–	–40
Net deferred tax assets	**141**	**7**	**–**	**–1**	**3**	**150**
Deferred tax liabilities						
Property, plant and equipment	1,949	17	–	5	–4	1,967
Derivative financial instruments	0	106	198	–238	–	66
Other	56	–37	–	1	–	20
Total deferred tax liabilities	**2,005**	**86**	**198**	**–232**	**–4**	**2,053**
Offset against deferred tax assets	–280	2	–	238	–	–40
Net deferred tax liabilities	**1,725**	**88**	**198**	**6**	**–4**	**2,013**

Deferred income tax assets 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 6 million (2010: 7) 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 21 million on 31 December 2011 (2010: 26).

Deferred tax assets and liabilities from acquisitions, disposals and assets held for sale mainly relate to the sale of Fortum Energiaratkaisut Oy shares. In December 2011 Fortum signed an agreement to sell Fortum Energiaratkaisut Oy and Fortum Termest AS to the EQT Infrastructure Fund. The divestment is planned to be completed during the first quarter of 2012. Also, partly deferred tax assets and liabilities relate to acquisitions in Poland during 2011.

See Note 9 Assets held for sale on page 67.

THE MOVEMENT IN DEFERRED TAX ASSETS AND LIABILITIES DURING 2010

EUR million	1 Jan 2010	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 2010
Deferred tax assets						
Property, plant and equipment	18	–3	–	1	–	16
Provisions	49	1	–	2	–	52
Tax losses and tax credits carry-forward	40	38	–	1	–	79
Derivative financial instruments	30	58	151	–1	–	238
Other	18	16	–	2	–	36
Total deferred tax assets	**155**	**110**	**151**	**5**	**–**	**421**
Offset against deferred tax liabilities	–108	–172	–	–	–	–280
Net deferred tax assets	**47**	**–62**	**151**	**5**	**–**	**141**
Deferred tax liabilities						
Property, plant and equipment	1,768	22	–	168	–9	1,949
Long term loans	32	–32	–	–	–	0
Current assets	33	–36	–	3	–	0
Other	25	28	–	3	–	56
Total deferred tax liabilities	**1,858**	**–18**	**–**	**174**	**–9**	**2,005**
Offset against deferred tax assets	–108	–172	–	–	–	–280
Net deferred tax liabilities	**1,750**	**–190**	**–**	**174**	**–9**	**1,725**

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

	2011		2010	
EUR million	Tax losses	Deferred tax asset	Tax losses	Deferred tax asset
Losses without expiration date	18	5	26	7
Losses with expiration date	229	78	216	72
Total	**247**	**83**	**242**	**79**

Deferred tax assets of EUR 26 million (2010: 18) 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.

35 NUCLEAR RELATED ASSETS AND LIABILITIES

Fortum owns the Loviisa nuclear power plant in Finland. Based on the Nuclear Energy Act in Finland, Fortum has a legal obligation to fully fund the legal liability decided by the governmental authorities, for decommissioning of the power plant and disposal of spent fuel through the State Nuclear Waste Management Fund. The text below should be read in conjunction with information in Note 1 Accounting policies on page 39.

EUR million	2011	2010
Amounts recognised in the balance sheet		
Nuclear provisions	653	625
Share in the State Nuclear Waste Management Fund	653	625
Legal liability and actual share of the State Nuclear Waste Management Fund		
Liability for nuclear waste management according to the Nuclear Energy Act	968	944
Funding obligation target	941	886
Fortum's share of the State Nuclear Waste Management Fund	903	843

35.1 Nuclear related provisions

The nuclear provisions are related to future obligations for nuclear waste management including decommissioning of the power plant and disposal of spent fuel. The fair values of the provisions are calculated according to IAS 37 based on future cash flows regarding estimated future costs for each of the provisions separately. The cash flows used are based on the cost estimates which are also the basis for the legal liability. Provisions for decommissioning and for disposal of spent fuel are both included in Nuclear provisions in the balance sheet.

According to the renewed Nuclear Energy Act Fortum submitted the proposal for the nuclear waste management liability regarding the Loviisa nuclear power plant to the Ministry of Employment and the Economy at the end of June 2010. The legal liability is calculated according to the Nuclear Energy Act in Finland and is decided by the Ministry of Employment and the Economy in December every year. The liability is based on a technical plan, which is made every third year. Following the update of technical plan in 2010, the discounted liability increased due to updated cost estimates related to interim and final storage of spent fuel.

The legal liability by the end of 2011, decided by the Ministry of Employment and the Economy and calculated according to the Nuclear Energy Act, is EUR 968 million (2010: 944). The carrying value of the nuclear provisions in the balance sheet, calculated according to IAS 37, have increased by EUR 28 million compared to 31 December 2010, totaling EUR 653 million on 31 December 2011. The main reason for the difference between the carrying value of the provision and the legal liability is the fact that the legal liability is not discounted to net present value.

The increase of the provision for spent fuel caused a negative one-time effect of EUR –2 million in comparable operating profit in 2011 (2010: –8) due to higher nuclear waste management costs related to already spent fuel. The increase of the provision for spent fuel also caused a negative one-time effect in 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, which are recognised immediately in the income statement.

The change of the provision for decommissioning is added to the capitalised nuclear decommissioning cost and depreciated over the remaining estimated operating time of the nuclear power plant.

See also Note 23 Property, plant and equipment on page 78.

NUCLEAR PROVISIONS

EUR million	2011	2010
1 January	**625**	**570**
Additional provisions	17	35
Used during the year	–25	–20
Unwinding of discount	36	40
31 December	**653**	**625**
Fortum's share in the State Nuclear Waste Management Fund	653	625

35.2 Fortum's share in the State Nuclear Waste Management Fund

Fortum contributes funds to the State Nuclear Waste Management Fund in Finland to cover future obligations based on the legal liability calculated according to the Finnish Nuclear Energy Act. The Fund is managed by governmental authorities. The carrying value of the Fund in Fortum's balance sheet is calculated according to IFRIC 5 *Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*.

According to the Nuclear Energy Act, Fortum is obligated to contribute the funds in full to the State Nuclear Waste Management Fund to cover the legal liability. Based on the law, Fortum applied for periodising of the payments to the Fund over six years, due to the proposed increase in the legal liability. The application was approved by the Council of State in December 2007.

The periodisation of the payments to the State Nuclear Waste Management Fund has an impact on cash flow, but also on operating profit since the carrying value of the Fund in the balance sheet cannot exceed the carrying value of the nuclear provisions according to IFRIC Interpretation 5. The Fund is from an IFRS perspective overfunded with EUR 250 million (2010: 218), since Fortum's share of the Fund on 31 December 2011 is EUR 903 million (2010: 843) and the carrying value in the balance sheet is EUR 653 million (2010: 625).

Operating profit for 2011 includes a negative total adjustment of EUR –28 million (2010: –2), since the value of the Fund has increased more than the carrying value of the provision. These adjustments are recognised in "Items affecting comparability" and are not included in comparable operating profit in the Power segment, see Note 5 Segment reporting and Note 6 Items affecting comparability. As long as the Fund stays overfunded from an IFRS perspective, positive accounting effects to operating profit will always occur when the nuclear provision is increasing more than the net payments to the Fund. Negative accounting effects will occur when the net payments to the Fund are higher than the increase of the provision.

35.2.1 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 both the new legal liability and the new decision for periodisation to the Fund, amounts to EUR 941 million (2010: 886). The difference between the legal liability at year end 2011 and the corresponding funding obligation target is covered by a security which has been given in the end of June 2011. The real estate mortgages and other securities given also cover unexpected events according to the Nuclear Energy Act.

See also Note 40 Pledged assets on page 94 and Note 43 Contingent liabilities on page 95.

35.3 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 33 Interest-bearing liabilities on page 87 and Note 40 Pledged assets on page 94.

35.4 Associated companies

Fortum has minority shareholdings in associated Finnish and Swedish nuclear production companies. The shareholdings entitle Fortum to electricity produced according to consortium agreements. Fortum has for these companies accounted for its share of the effects from nuclear related assets and provisions according to Fortum accounting principles.

Fortum has at year-end 2011 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 2011. In 2010, the effect in share of profits was EUR –12 million. The difference between 2011 and 2010 is mostly due to higher interest income in Swedish Nuclear Waste Fund. The State Nuclear Waste Management Fund in Finland is overfunded whereas the value of the Swedish Nuclear Waste Fund is estimated to be slightly below the value of provisions at year-end 2011.

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 43 Contingent liabilities on page 95.

36 OTHER PROVISIONS

	2011				2010			
EUR million	CSA provision	Environ-mental	Other	Total	CSA provision	Environ-mental	Other	Total
1 January	**208**	**12**	**28**	**248**	**186**	**11**	**23**	**220**
Provisions for the period	8	0	8	16	–	0	18	18
Provisions used	–5	0	–9	–14	–5	–	–7	–12
Provisions reversed	–42	–1	–10	–53	–	–	–5	–5
Unwinding of discount	16	0	0	16	16	0	–	16
Exchange rate differences	–5	1	0	–4	11	1	–1	11
31 December	**180**	**12**	**17**	**209**	**208**	**12**	**28**	**248**
Allocation between current and non-current provisions								
Current provisions	–	–	4	4	–	–	9	9
Non-current provisions	180	12	13	205	208	12	19	239

Fortum's extensive investment programme in Russia (8 units) 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 new rules for the long-term capacity market were approved in the beginning of 2011. This brought also more clarity to the possible penalties imposed on late delivery. Penalties are now defined on power plant level. This means that Fortum's risk for penalties under CSA agreement is proportionally decreasing when a new unit starts operation.

During 2011 Fortum commissioned three new units under the Russian investment program. In 2011 the company reversed EUR 42 million of provisions in relation to those power plants. The effect of changes in the timing of commissioning of new power plants is assessed at each balance sheet date and provision is changed accordingly. The impact of the change in timing to discounted amounts as of 31 Dec 2011 was EUR 8 million. The total impact of changes in CSA provision to comparable operating profit in 2011 was thus EUR 34 million. Paid penalties during 2011 amounted to EUR 5 million. The increase in the provision due to the discounting during 2011 amounted to EUR 16 million. This amount was booked 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 3 million (2010: 9). The restructuring provision in 2010 was related to Business Markets restructuring in Electricity Sales segment and re-organisation of service functions in order to develop the internal processes and to create more efficient and higher quality workflows. The restructuring provision was mainly related to staff costs and was mostly utilised in 2011.

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.

37 PENSION OBLIGATIONS

The Group companies have various defined benefit and defined contribution pension plans in accordance with the local conditions and practices in the countries in which they operate. The concerned pensions are primarily retirement pensions, disability pensions and family pensions but contain also early retirement arrangements.

In Finland the most significant pension plan is the Finnish Statutory Employment Pension Scheme (TyEL) in which benefits are directly linked to employees' earnings. These pensions are funded in insurance companies and treated as defined contribution plans. The benefits provided under TyEL are old age pensions, disability pensions, unemployment pensions and survivors' pensions. In addition, certain Fortum employees in Finland have additional pension coverage through the company's own pension fund or through insurance companies. These defined benefit plans are fully funded. The Fortum Pension Fund is a closed fund providing old age pension, disability pension, survivor's pension and funeral grant. The additional pensions through insurance companies provide old age pension and funeral grant.

In Sweden the Group operates several defined benefit and defined contribution plans like the general ITP-pension plan and the PA-KL and PA-KFS plans that are eligible for employees within companies formerly owned by municipalities. The defined benefit plans are fully funded and have partly been financed through Fortum's own pension fund and partly through insurance premiums. The pension arrangements comprise normal retirement pension, complementary retirement pensions, survivors' pension and disability pension. The most significant pension plan is the ITP-plan for white-collar employees in permanent employment (or temporary employees after a certain waiting period), who fulfill the age conditions. To qualify for a full pension the employee must have a projected period of pensionable service, from the date of entry until retirement age, of at least 30 years.

The part of the ITP multiemployer pension plan that is secured by paying pension premiums to Alecta, in Fortum's case the collective family pension, is accounted for as a defined contribution plan due to that there is no consistent and reliable basis to allocate assets or liabilities to the participating entities within the ITP insurance. The reason for this is that it is not possible to determine from the terms of the plan to which extent a surplus or a deficit will affect future contributions.

The Norwegian companies are part of schemes that are common for municipalities in Norway. These are defined benefit pension plans and provide old age pensions, disability pension and survivor's pension, including pension benefits from the National Insurance Scheme (Folketrygden). The schemes are fully funded within the rules set out in the Norwegian insurance legislation.

Pension arrangements in Russia include payments made to the Russian Federation's state pension fund. These arrangements are treated as defined contribution plans. In addition the Russian companies participate in a non-state power industry pension fund as well as in certain defined benefit plans, defined by collective agreements, which are unfunded. The benefits provided under these arrangements

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47

include, in addition to pension payments, one-time benefits paid in case of employee mortality or disability as well as lump sum payments for anniversary and financial support to honored workers and pensioners.

In other countries the pension arrangements are done in accordance with the local legislation and practice, mostly being defined contribution plans.

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

EUR million	2011	2010
Current service cost	–13	–12
Interest cost	–19	–19
Expected return on plan assets	24	23
Settlements	0	–2
Past service cost	0	0
Actuarial gains and losses	–6	–2
Curtailments	–2	1
Total included in employee costs (Note 14)	**–16**	**–11**

The actual return on plan assets in Finland and Sweden totalled EUR –6 million (2010: 35).

AMOUNTS RECOGNISED IN THE BALANCE SHEET

EUR million	2011	2010
Present value of funded obligations	523	472
Fair value of plan assets	–430	–444
Deficit (+) / surplus (–)	**93**	**28**
Present value of unfunded obligations [1]	4	4
Unrecognised past service cost	2	3
Unrecognised actuarial gains and losses	–140	–77
Net asset (–) / liability (+) in the balance sheet	**–41**	**–42**
Defined benefit asset included in the assets	60	62
Defined benefit obligations	**19**	**20**
Other long-term benefits [2]	7	0
Total past service obligations	**26**	**20**
Defined benefit obligations included in the non-current liabilities	19	20
Defined benefit assets included in the non-current assets	–60	–62
Net asset (–) / liability (+)	**–41**	**–42**
Experience adjustments arising on funded obligations; gain (–) / loss (+)	–9	9
Experience adjustments arising on plan assets; gain (+) / loss (–)	–27	13

[1] *The unfunded obligation relates to arrangements in Russia.*

[2] *Other long-term benefits mainly concern obligations in Polish entities.*

Contributions expected to be paid during the year 2012 are EUR 13 million.

MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

EUR million	2011	2010
1 January	**476**	**409**
Exchange rate differences	1	27
Decreases through disposals of subsidiary companies	–	–1
Service cost	13	12
Interest cost	19	20
Past service cost	–	0
Effect of settlement	–7	–9
Actuarial gains (–) / losses (+) on obligations	43	36
Benefits paid	–18	–17
Curtailments	–	–1
31 December	**527**	**476**

MOVEMENT IN THE FAIR VALUE OF PLAN ASSETS

EUR million	2011	2010
1 January	**444**	**398**
Exchange rate differences	1	22
Decreases through disposals of subsidiary companies	–	0
Expected return of plan assets	24	23
Actuarial gains and losses	–27	12
Contributions by employer	6	8
Effect of settlement	–	0
Benefits paid	–18	–19
31 December	**430**	**444**

FAIR VALUE OF PLAN ASSETS

EUR million	2011	2010
Equity instruments	156	179
Debt instruments	144	139
Property, of which EUR 72 million (2010: 52) occupied by the Group	72	82
Company's own ordinary shares	5	7
Other assets	53	37
Total	**430**	**444**

When the pension plan has been financed through an insurance company, a specification of the plan assets has not been available. In these cases the fair value of plan assets has been included in other assets.

AMOUNTS RECOGNISED IN THE BALANCE SHEET BY COUNTRY 2011

EUR million	Finland	Sweden	Other countries	Total
Present value of funded obligations	256	231	36	523
Fair value of plan assets	–236	–174	–20	–430
Deficit (+) / surplus (–)	**20**	**57**	**16**	**93**
Present value of unfunded obligations	–	–	4	4
Unrecognised past service cost	–	–	2	2
Unrecognised actuarial gains and losses	–61	–68	–11	–140
Net asset (–) / liability (+) in the balance sheet	**–41**	**–11**	**11**	**–41**
Defined benefit asset included in the assets	47	13	0	60
Pension obligations in the balance sheet	**6**	**2**	**11**	**19**

AMOUNTS RECOGNISED IN THE BALANCE SHEET BY COUNTRY 2010

EUR million	Finland	Sweden	Other countries	Total
Present value of funded obligations	226	214	32	472
Fair value of plan assets	–257	–170	–17	–444
Deficit (+) / surplus (–)	**–31**	**44**	**15**	**28**
Present value of unfunded obligations	–	–	4	4
Unrecognised past service cost	–	–	3	3
Unrecognised actuarial gains and losses	–7	–58	–12	–77
Net asset (–) / liability (+) in the balance sheet	**–38**	**–14**	**10**	**–42**
Defined benefit asset included in the assets	46	16	0	62
Pension obligations in the balance sheet	**8**	**2**	**10**	**20**

COMPARATIVE PENSION INFORMATION

EUR million	2011	2010	2009	2008	2007
Present value of defined benefit obligation	527	476	409	406	390
Fair value of plan assets	–430	–444	–398	–343	–276
Deficit (+) / surplus (–) in the plan	**97**	**32**	**11**	**63**	**114**
Experience adjustments on plan liabilities	–9	9	–6	20	11
Experience adjustments on plan assets	–27	13	22	–48	21

THE PRINCIPAL ACTUARIAL ASSUMPTIONS USED

	2011				2010			
	Finland	Sweden	Russia	Other countries	Finland	Sweden	Russia	Other countries
Discount rate, %	3.68	3.40	8.50	3.30	4.53	4.00	8.00	3.20
Expected return on plan assets, %	5.87	3.83	N/A	4.80	5.94	4.64	N/A	4.60
Future salary increases, %	2.60	3.50	7.50	4.00	2.90	3.50	7.50	3.75
Future pension increases, %	2.10	2.00	6.00	3.00	2.10	2.00	6.00	3.00
Rate of inflation, %	2.00	2.00	6.00	2.00	2.00	2.00	6.00	2.00

The discount rate in Finland is based on high quality European corporate bonds with maturity that best reflects the estimated term of the defined benefit pension plans. The discount rate in Sweden is based on yields on Swedish covered bonds with maturity that best reflects the estimated term of the defined benefit pension plans. The Swedish covered bonds are considered high quality bonds as they are secured with assets. The discount rate in Russia and Norway is based on the yield of long-term government bonds which are consistent with the currency and the estimated term of the post-employment benefit obligations. The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected returns are based on long-term real rates of return experienced in the respective markets and reported by external asset manager.

The discount, inflation and salary growth rates used are the key assumptions used when calculating defined benefit obligations. Effects of 0.5 percentage point change in the rates to the defined benefit obligation on 31 December 2011, holding all other assumptions stable, are presented in the table below.

SENSIBILITY OF DEFINED BENEFIT OBLIGATION TO CHANGES IN ASSUMPTIONS

	Impact to the pension obligation increase + / decrease –	
Change in the assumption	Finland	Sweden
0.5% increase in discount rate	–6.6%	–9.0%
0.5% decrease in discount rate	7.4%	10.1%
0.5% increase in inflation rate	7.3%	8.2%
0.5% decrease in inflation rate	–6.6%	–7.1%
0.5% increase in salary growth rate	1.2%	3.7%
0.5% decrease in salary growth rate	–1.2%	–3.5%

38 OTHER NON-CURRENT LIABILITIES

EUR million	2011	2010
Connection fees	415	417
Other liabilities	50	54
Total	**465**	**471**

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 307 million (2010: 307).

Refundable connection fees to the district heating network in Finland amounted to EUR 108 million (2010: 110).

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47

39 TRADE AND OTHER PAYABLES

EUR million	2011	2010
Trade payables	443	435
Accrued expenses and deferred income		
Personnel expenses	86	59
Interest expenses	162	131
Other accrued expenses and deferred income	156	91
Other liabilities		
VAT-liability	85	78
Current tax liability	37	121
Energy taxes	41	41
Advances received	90	104
Other liabilities	165	205
Total	**1,265**	**1,265**

The management considers that the amount of trade and other payables approximates fair value.

40 PLEDGED ASSETS

EUR million	2011	2010
On own behalf		
For debt		
Pledges	290	307
Real estate mortgages	137	137
For other commitments		
Real estate mortgages	148	155
On behalf of associated companies and joint ventures		
Pledges and real estate mortgages	3	3

40.1 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 2011 (2010: 269).

Pledges also include bank deposits as trading collateral of EUR 2 million (2010: 19) for trading of electricity and CO_2 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 (2010: 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 (2010: 41).

Regarding the relevant interest-bearing liabilities, see Note 33 Interest-bearing liabilities on page 87.

40.2 Pledged assets for other commitments

Fortum has given real estate mortgages in power plants in Finland for a value of EUR 148 million (2010: 155) as a security to the State Nuclear Waste Management Fund 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 7 million. Pledges given related to Inkoo and Naantali power plants.

See also Note 35 Nuclear related assets and liabilities on page 89 and note 43 Contingent liabilities on page 95.

41 OPERATING LEASES

41.1 Leases as lessor

The operating rental income recognised in income statement was EUR 4 million (2010: 19). The decrease in operating rental income is due to that 308 MW of the Meri-Pori power plant was leased out until the end of June 2010. After that the power plant's capacity was reverted to Fortum's own use.

FUTURE MINIMUM LEASE PAYMENTS RECEIVABLE ON OPERATING LEASES

EUR million	2011	2010
Not later than 1 year	10	2
Later than 1 year and not later than 5 years	10	5
Later than 5 years	4	3
Total	**24**	**10**

41.2 Leases as lessee

Fortum leases office equipment and cars under various non-cancellable operating leases, some of which contain renewal options. The future costs for non-cancellable operating lease contracts are stated below. Lease rental expenses amounting to EUR 25 million (2010: 14) 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	2011	2010
Not later than 1 year	32	29
Later than 1 year and not later than 5 years	68	49
Later than 5 years	142	130
Total	**242**	**208**

42 CAPITAL COMMITMENTS

EUR million	2011	2010
Property, plant and equipment	940	1,172
Intangible assets	10	7
Total	**950**	**1,179**

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 2010. Commitments have decreased due to progressing of OAO Fortum's investment programme, progressing of the automatic meter reading investment in Distribution Finland as well as the finalisation of the Częstochowa power plant investment. On the other hand commitments relating to Bio CHP investments in Järvenpää, Finland and in Jelgava, Latvia, as well as CHP investment Brista 2 and Blaiken wind park investment in Sweden have increased commitments.

For more information regarding capital expenditure, see Note 23 Property, plant and equipment on page 78.

43 CONTINGENT LIABILITIES

EUR million	2011	2010
On own behalf		
Other contingent liabilities	68	228
On behalf of associated companies and joint ventures		
Guarantees	347	358
Other contingent liabilities	125	125
On behalf of others		
Guarantees	0	1

43.1 Guarantees on own behalf

Other contingent liabilities on own behalf, EUR 68 million in 2011, have decreased by EUR 160 million compared to 31 December 2010. In Russia, the progressing of investment program in OAO Fortum caused a decrease in guarantees from EUR 109 million in 2010 to EUR 0 million in 2011. A guarantee of EUR 25 million given to the Finnish State Nuclear Waste Management Fund for the uncovered part of the Loviisa nuclear power plant's legal liability and unexpected events related to decommissioning and disposal of spent fuel has matured during 2011.

43.2 Guarantees on behalf of associated companies

Guarantees and other contingent liabilities on behalf of associated companies and joint ventures mainly consist of guarantees relating to Fortum's associated nuclear companies Teollisuuden Voima Oyj (TVO), Forsmarks Kraftgrupp AB (FKA) and OKG AB (OKG). The guarantees are given in proportion to Fortum's respective ownership in each of these companies.

According to law, nuclear companies operating in Finland and Sweden shall give securities to the Finnish State Nuclear Waste Management Fund and the Swedish Nuclear Waste Fund respectively, to guarantee that sufficient funds exist to cover future expenses of decommissioning of the power plant and disposal of spent fuel. In Finland, Fortum has given a guarantee on behalf of TVO to the Finnish State Nuclear Waste Management Fund to cover Fortum's part of TVO's uncovered part of the legal liability and for unexpected events. The amount of guarantees is updated every year in June based on the legal liability decided in December the previous year. Due to the yearly update, the amount of guarantees given decreased to EUR 44 million (2010: 58).

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 2010 and 2011 were decided in December 2009 by the Swedish government and they became effective from June 2010. The total amount of guarantees for FKA and OKG decreased from SEK 5,314 million (EUR 518 million) at year-end 2009 to SEK 2,574 million (EUR 287 million) in December 2010. The decrease is due to a change made by the Swedish government in the calculation method of the guarantees. The guarantees were previously based on nominal values, but from June 2010 onwards they are based on discounted cash flows. The guarantees for FKA and OKG for 2012–2014 will be increased from current SEK 2,574 million (EUR 289 million) to SEK 3,696 million (EUR 425 million) in 2012.

Meri-Pori power plant in Finland is owned by Fortum 54.55% and TVO 45.45%. Based on the participation agreement Fortum has to give a guarantee to TVO against possible loss of asset or breach in contract of TVO's share of the asset, EUR 125 million (2010: 125).

Fortum's 100% owned subsidiary Fortum Heat and Gas Oy has a collective contingent liability with Neste Oil Oyj of the demerged Fortum Oil and Gas Oy's liabilities based on the Finnish Companies Act's (734/1978) Chapter 14a Paragraph 6.

44 LEGAL ACTIONS AND OFFICIAL PROCEEDINGS

44.1 Group companies

The Swedish Energy Authority (EI), which regulates and supervises the distribution network tariffs in Sweden, has issued a decision concerning the allowed income frame for the years 2012–2015. EI has based its decision on a model with a transition rule stating that it takes 18 years to reach the allowed level of income according to the new model. The EI decision has been appealed to the County Administrative Court by more than 80 distribution companies, including Fortum Distribution AB. The basis for Fortum Distribution AB's appeal is that the model is not compatible with the existing legislation and that EI has applied an incorrect method for the calculation of Weighted Average Cost of Capital (WACC).

Fortum Sweden AB and Fortum Nordic AB, have received an income tax assessment for the year 2009 from the Swedish tax authorities. According to the tax authorities, Fortum would have to pay additional income taxes for the year 2009 for the reallocation of the loans between the Swedish subsidiaries in 2004–2005. The claim is based on the change in tax regulation as of 2009. Fortum considers the claim unjustifiable and will appeal the decision. No provision has been accounted for in the financial statements. If the decision by the tax authority remains final despite the appeals process, the impact on the net profit for the period would be approximately 420 MSEK.

Two subsidiaries of Fortum, Grangemouth CHP Limited and Fortum O&M (UK) Limited, were defendants in a court case regarding greenhouse gas emission allowances in the High Court of Justice in London. Grangemouth CHP Limited is a party to an Electricity Supply Agreement with Ineos Manufacturing Scotland Limited, pursuant to which Grangemouth CHP Limited provides electricity from its CHP plant to the Grangemouth site in Scotland until April 2016. Ineos Manufacturing Scotland Limited claimed that it is entitled to all of the emission allowances allocated under the EU ETS scheme for greenhouse gas emission allowance trading with respect to the CHP plant. Grangemouth CHP Limited denied this claim. The trial took place in November and December 2010. The final court decision was issued on 11 February 2011 in favor of Grangemouth CHP Limited and Fortum O&M (UK) Limited. As a result, Fortum O&M (UK) Limited will retain ownership of all greenhouse gas emission allowances allocated in respect of the Grangemouth CHP plant.

In addition to the litigations described above, some Group companies are involved in disputes incidental to their business. In management's opinion the outcome of such disputes will not have material effect on the Group's financial position.

44.2 Associated companies

In Finland Fortum is participating in the country's fifth nuclear power plant unit, Olkiluoto 3, through the shareholding in Teollisuuden Voima Oyj (TVO) with an approximately 25% share representing some 400 MW in capacity. The construction of the unit has been delayed and AREVA-Siemens Consortium, the turnkey supplier, reported in November 2010 that most of the work will be completed in 2012. The supplier indicated also that commissioning will take eight months, which means regular operation will start during the latter half of 2013. AREVA-Siemens has filed a request for arbitration in December 2008, concerning the Olkiluoto 3 delay and related costs. The supplier has in June 2011 submitted its updated statement of claim, which includes updated claimed amounts with specified sums of indirect items and interest. The supplier's presented monetary claim including indirect items and interest is currently approximately EUR 1.9 billion. TVO has considered and found the claim by the supplier to be without merit. TVO has, in response, filed a counter-claim in April 2009 based on costs primarily due to delays. The value of TVO's presented counter-claim is currently approximately EUR 1.4 billion. TVO will update its counter-claim during the arbitration proceedings. The arbitration proceedings may continue for several years and the claimed and counter-claimed amounts may change.

45 RELATED PARTY TRANSACTIONS

45.1 The Finnish State and companies owned by the Finnish State

At the end of 2011 the Finnish State owned 50.76% of the company. No changes have occurred during year 2011.

See The Fortum share and shareholders section of the Operating and financial review for further information on Fortum shareholders on page 27.

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.

45.2 Board of Directors and Fortum Management Team

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 2011.

See Note 14 Employee costs and management remuneration on page 68 for further information on the Board of Directors and Fortum Management Team remuneration and share holdings.

45.3 Associated companies and joint ventures

Fortum owns shareholdings in associated companies and joint ventures which in turn own hydro and nuclear power plants. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership or other agreements. Each owner is liable for an equivalent portion of costs regardless of output. The associated companies are not profit making, since the owners purchase electricity at production cost including interest costs and production taxes, which generally is lower than market price.

For further information on transactions and balances with associated companies and joint ventures, see Note 24 Participations in associated companies and joint ventures on page 80.

46 EVENTS AFTER THE BALANCE SHEET DATE

There are no material events after the balance sheet date.

47 SUBSIDIARIES BY SEGMENT ON 31 DECEMBER 2011

● = *Power*
■ = *Heat*
▲ = *Distribution*
○ = *Electricity Sales*
□ = *Russia*
▼ = *Other*

[1] *Acquired during the year*
[2] *Founded during the year*
[3] *Shares held by the parent company*

Company name		Domicile	Segment	Group holding %
Energiansiirto Holding Kakkonen Oy		Finland	▲	100.0
Energiansiirto Holding Ykkönen Oy		Finland	▲	100.0
Fortum Asiakaspalvelu Oy	[3]	Finland	▼	100.0
Fortum Assets Oy		Finland	▼	100.0
Fortum BCS Oy		Finland	□	100.0
Fortum Energiaratkaisut Oy	[2]	Finland	■	100.0
Fortum Espoo Distribution Oy	[3]	Finland	▲	100.0
Fortum FNW Oy		Finland	▲	100.0
Fortum Heat and Gas Oy	[3]	Finland	■▼	100.0
Fortum Heat Naantali Oy		Finland	■	100.0
Fortum Hyötytuotanto Oy		Finland	●	100.0
Fortum Markets Oy	[3]	Finland	○	100.0
Fortum Nuclear Services Oy		Finland	●	100.0
Fortum Portfolio Services Oy		Finland	○	100.0
Fortum Power and Heat Oy	[3]	Finland	●▼▲○□■	100.0
Fortum Small Hydro Holding Oy	[2]	Finland	●	100.0
Fortum Small Hydro Oy	[2]	Finland	●	100.0
Fortum Sähkönsiirto Oy	[3]	Finland	▲	100.0
Hexivo Oy		Finland	●	52.0
Kiinteistö Oy Espoon Energiatalo		Finland	▼	100.0
Killin Voima Oy		Finland	●	60.0
Koillis-Pohjan Energiantuotanto Oy		Finland	●	100.0
Koskivo Oy		Finland	▲	100.0
KPPV-Sijoitus Oy		Finland	▲	100.0
Linnankosken Voima Oy		Finland	▲	100.0
Lounais-Suomen Lämpö Oy		Finland	▲	100.0
Mansikkalan Voima Oy		Finland	▲	100.0
Mäntynummen Lämpö Oy		Finland	■	58.3
Oy Pauken Ab		Finland	▼	100.0
Oy Tersil Ab		Finland	▲	100.0
Oy Tertrade Ab		Finland	▲	100.0
Rajapatsaan Voima Oy		Finland	▲	100.0
Saimaanrannan Voima Oy		Finland	▲	100.0
Tunturituuli Oy		Finland	●	55.4
Varsinais-Suomen Sähkö Oy		Finland	▲	100.0

Company name		Domicile	Segment	Group holding %
Fortum EIF NV	[3]	Belgium	□	100.0
Fortum Project Finance N.V.	[3]	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 Elekter AS		Estonia	▲	99.6
Fortum Termest AS		Estonia	■	100.0
Lauka Turvas OU		Estonia	■	60.0
Fortum France S.N.C	[2]	France	●	100.0
Fortum Service Deutschland GmbH		Germany	●	100.0
Fortum Direct Ltd		Great Britain	●	100.0
Fortum Energy Ltd		Great Britain	●	100.0
Fortum Gas Ltd		Great Britain	●	100.0
Fortum Insurance Ltd		Great Britain	▼	100.0
Fortum O&M(UK) Limited		Great Britain	●	100.0
Grangemouth CHP Limited		Great Britain	●	100.0
IVO Energy Limited		Great Britain	●	100.0
SIA Fortum Jelgava		Latvia	■	100.0
SIA Fortum Latvija		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		Luxembourg	■	100.0
Fortum Futures SA	[2]	Luxembourg	▼	100.0
Fortum L.A.M SNC.		Luxembourg	■	100.0
Fortum Meter Lease Norway SNC	[2]	Luxembourg	▲	100.0
Fortum Meter Lease SNC	[2]	Luxembourg	▲	100.0
Fortum Russia CHP Lease SNC	[2]	Luxembourg	□	100.0
Fortum Sendi Prima Sdn Bhd		Malaysia	●	100.0

● = *Power*
■ = *Heat*
▲ = *Distribution*
○ = *Electricity Sales*
□ = *Russia*
▼ = *Other*

[1] *Acquired during the year*
[2] *Founded during the year*
[3] *Shares held by the parent company*

Company name	Domicile	Segment	Group holding %
Fortum Distribution AS	Norway	▲○	100.0
Fortum Fjernvarme AS	Norway	■	100.0
Fortum Förvaltning AS	Norway	●	100.0
Fortum Holding Norway AS	Norway	■▲○▼	100.0
Fortum Leasing KS	Norway	■	100.0
Fortum Markets AS	Norway	○	100.0
Fortum Bytom SA [1]	Poland	■	96.7
Fortum Plock Sp z o.o.	Poland	■	99.6
Fortum Power and Heat Polska Sp.z.o.o	Poland	■▼●	100.0
Fortum Zabrze SA [1]	Poland	■	96.0
Rejonowa Spółka Ciepłownicza Sp. z o.o. [1]	Poland	■	96.7
Chelyabinsk Energoremont	Russia	●	94.5
Fortum Invest	Russia	□	100.0
LLC Fortum Energy OOO Fortum Energija	Russia	□	100.0
OAO Fortum	Russia	□	94.5
Urals Heat Network	Russia	□	94.5
AB Fortum Värme Holding samägt med Stockholms stad	Sweden	■	50.1
AB Fortum Värme samägt med Stockholms stad	Sweden	■	50.1
Akallaverket Aktiebolag	Sweden	■	37.6
Blybergs Kraftaktiebolag	Sweden	●	66.7
Brista 2 Aktiebolag [2]	Sweden	■	42.6
Brista 2 Kommanditbolag [2]	Sweden	■	42.6
Brista Spårterminal AB [2]	Sweden	■	50.1
Brännälven Kraft AB	Sweden	●	67.0
Bullerforsens Kraft Aktiebolag	Sweden	●	88.0
Fortum 1 AB	Sweden	□	100.0
Fortum AMCO AB	Sweden	▼	100.0
Fortum Dalälvens Kraft AB	Sweden	●	100.0
Fortum Distribution AB	Sweden	▲	100.0
Fortum Fastigheter AB	Sweden	▼	100.0
Fortum Generation AB	Sweden	●	100.0
Fortum Indalskraft AB	Sweden	●	100.0
Fortum Ljunga Kraft AB	Sweden	●	100.0
Fortum Ljusnans Kraft AB	Sweden	●	100.0
Fortum Markets AB	Sweden	○	100.0

Company name	Domicile	Segment	Group holding %
Fortum Nordic AB [3]	Sweden	▼	100.0
Fortum Power and Heat AB	Sweden	■○▼▲	100.0
Fortum Produktionsnät AB	Sweden	●	100.0
Fortum Sweden AB [3]	Sweden	▼	100.0
Fortum Vind Norr AB	Sweden	●	100.0
Fortum Värme Fastigheter AB	Sweden	■	50.1
Fortum Zeta AB	Sweden	▼	100.0
Fortum Älvkraft i Värmland AB	Sweden	●	100.0
Laforsen Produktionsnät Aktiebolag	Sweden	▲	80.0
Mellansvensk Kraftgrupp Aktiebolag	Sweden	●	86.9
Oreälvens Kraftaktiebolag	Sweden	●	65.0
Ryssa Energi AB	Sweden	○	100.0
Sigtuna-Väsby Fastighets AB	Sweden	■	50.1
Stockholm Gas AB	Sweden	■	50.1
Streamgate Black AB [2]	Sweden	●	100.0
Streamgate North AB [2]	Sweden	●	100.0
Streamgate Två AB	Sweden	●	100.0
Streamgate Valley AB [2]	Sweden	●	100.0
Streamgate Village AB [2]	Sweden	●	100.0
Uddeholm Kraft Aktiebolag	Sweden	●	100.0
Värmlandskraft-OKG-delägarna Aktiebolag	Sweden	●	73.3
FB Generation Services B.V.	The Netherlands	●	75.0
Fortum AC B.V. [2]	The Netherlands	●	100.0
Fortum Alpha B.V.	The Netherlands	■	100.0
Fortum DC B.V.	The Netherlands	▼	100.0
Fortum Finance 2 B.V.	The Netherlands	▼	100.0
Fortum Holding B.V. [3]	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. [2]	The Netherlands	▼	100.0
Fortum Wave Power B.V.	The Netherlands	●	100.0

Key figures

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

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

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

	FAS	FAS	FAS	FAS	FAS	FAS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	Change 11/10
EUR million or as indicated	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	%
Sales total Fortum	8,494	8,232	10,614	10,410	11,148	11,392	11,659	5,918	4,491	4,479	5,636	5,435	6,296	6,161	–2
Sales continuing operations							3,835	3,877	4,491	4,479	5,636	5,435	6,296	6,161	–2
EBITDA total Fortum [1]	1,049	1,192	1,431	1,501	1,952	1,917	2,443	2,307	1,884	2,298	2,478	2,292	2,271	3,008	32
EBITDA continuing operations							1,583	1,754	1,884	2,298	2,478	2,292	2,271	3,008	32
Comparable EBITDA continuing operations								1,741	1,866	2,015	2,360	2,398	2,396	2,374	–1
Operating profit total Fortum	586	705	906	914	1,289	1,420	1,916	1,864	1,455	1,847	1,963	1,782	1,708	2,402	41
– of sales %	6.9	8.6	8.5	8.8	11.6	12.5	16.4	31.5	32.4	41.2	34.8	32.8	27.1	39.0	
Operating profit continuing operations							1,195	1,347	1,455	1,847	1,963	1,782	1,708	2,402	41
– of sales %							31.2	34.7	32.4	41.2	34.8	32.8	27.1	39.0	
Comparable operating profit continuing operations							1,148	1,334	1,437	1,564	1,845	1,888	1,833	1,802	–2
Profit before income tax total Fortum	363	954	623	702	1,008	1,184	1,700	1,776	1,421	1,934	1,850	1,636	1,615	2,228	38
– of sales %	4.3	11.6	5.9	6.7	9.0	10.4	14.6	30.0	31.6	43.2	32.8	30.1	25.7	36.2	
Profit before income tax continuing operations							962	1,267	1,421	1,934	1,850	1,636	1,615	2,228	38
– of sales %							25.1	32.7	31.6	43.2	32.8	30.1	25.7	36.2	
Profit for the period continuing operations							703	936	1,120	1,608	1,596	1,351	1,354	1,862	38
– of which attributable to owners of the parent							670	884	1,071	1,552	1,542	1,312	1,300	1,769	36
Capital employed, total Fortum	8,647	9,425	11,365	11,032	13,765	12,704	12,890	11,357	12,663	13,544	15,911	15,350	16,124	17,931	11
Capital employed continuing operations							10,739	11,357	12,663	13,544	15,911	15,350	16,124	17,931	11
Interest-bearing net debt	3,898	3,818	4,626	3,674	5,848	5,626	5,095	3,158	4,345	4,466	6,179	5,969	6,826	7,023	3

[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.*

EUR million or as indicated	FAS 1998	FAS 1999	FAS 2000	FAS 2001	FAS 2002	FAS 2003	IFRS 2004	IFRS 2005	IFRS 2006	IFRS 2007	IFRS 2008	IFRS 2009	IFRS 2010	IFRS 2011	Change 11/10 %
Capital expenditure and gross investments in shares total Fortum	1,702	1,059	3,131	713	4,381	1,136	830	578	1,395	972	2,624	929	1,249	1,482	19
– of sales %	20.0	12.9	29.5	6.8	39.3	10.0	7.1	9.8	31.1	21.7	46.6	17.1	19.8	24.1	
Capital expenditure and gross investments in shares continuing operations							514	479	1,395	972	2,624	929	1,249	1,482	19
Capital expenditure continuing operations							335	346	485	655	1,108	862	1,222	1,408	15
Net cash from operating activities total Fortum	793	524	424	1,145	1,351	1,577	1,758	1,404	1,151	1,670	2,002	2,264	1,437	1,613	12
Net cash from operating activities continuing operations							1,232	1,271	1,151	1,670	2,002	2,264	1,437	1,613	12
Return on capital employed total Fortum, %	7.7	8.4	9.4	8.7	11.1	11.4	15.8	16.6	13.4	16.5	15.0	12.1	11.6	14.8	
Return on capital employed continuing operations, %							11.4	13.5	13.4	16.5	15.0	12.1	11.6	14.8	
Return on shareholders' equity total Fortum, %	5.7	7.7	8.6	8.3	10.5	12.3	18.2	18.7	14.4	19.1	18.7	16.0	15.7	19.7	
Return on shareholders' equity continuing operations, % [2)]								13.5	14.4	19.1	18.7	16.0	15.7	19.7	
Interest coverage	2.6	3.4	3.7	4.3	4.7	5.8	8.0	11.6	11.5	12.8	9.4	12.4	13.7	10.5	
Interest coverage including capitalised borrowing costs											8.6	10.3	10.0	8.5	
Funds from operations/interest-bearing net debt, %	17.9	14.3	19.9	28.8	21.6	26.1	36.4	43.2	30.6	36.3	34.1	37.6	20.5	21.5	
Gearing, % [3)]	93	79	73	54	80	85	67	43	53	52	73	70	78	69	
Net debt / EBITDA	3.7	3.2	3.2	2.4	3.0	2.9	2.1	1.4	2.3	1.9	2.5	2.6	3.0	2.3	
Net debt / EBITDA continuing operations							–	1.8	2.3	1.9	2.5	2.6	3.0	2.3	
Comparable net debt / EBITDA continuing operations							–	1.8	2.3	2.2	2.6	2.5	2.8	3.0	
Equity-to-assets ratio, %	36	39	43	48	41	40	44	49	48	49	41	43	40	44	
Dividends [4)]	99	141	194	220	262	357	506	987	1,122	1,198	888	888	888	888 [5)]	0
Dividends continuing operations								511	650	683					
Dividends additional in 2006 and 2007/ discontinued operations in 2005								476	472	515					
Research and development expenditure	92	72	58	53	33	35	26	14	17	21	27	30	30	38	27
– of sales %	1.1	0.9	0.5	0.5	0.3	0.3	0.2	0.2	0.4	0.5	0.5	0.5	0.5	0.6	
Average number of employees total Fortum	19,003	17,461	16,220	14,803	14,053	13,343	12,859	10,026	8,910	8,304	14,077	13,278	11,156	11,010	
Average number of employees continuing operations							8,592	8,939	8,910	8,304	14,077	13,278	11,156	11,010	

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

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

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

[5)] *Board of Directors' proposal for the Annual General Meeting on 11 April 2012.*

See Definitions of key figures on pages 104 and 105.

Share key figures

EUR or as indicated	FAS 1998	FAS 1999	FAS 2000	FAS 2001	FAS 2002	FAS 2003	IFRS 2004	IFRS 2005	IFRS 2006	IFRS 2007	IFRS 2008	IFRS 2009	IFRS 2010	IFRS 2011	Change 11/10 %
Earnings per share total Fortum	0.27	0.41	0.55	0.57	0.79	0.91	1.48	1.55	1.22	1.74	1.74	1.48	1.46	1.99	36
Earnings per share continuing operations	–	–	–	–	–	–	0.79	1.01	1.22	1.74	1.74	1.48	1.46	1.99	36
Earnings per share discontinued operations	–	–	–	–	–	–	0.69	0.54	–	–	–	–	–	–	
Diluted earnings per share total Fortum	–	–	0.55	0.57	0.78	0.90	1.46	1.53	1.21	1.74	1.74	1.48	1.46	1.99	36
Diluted earnings per share continuing operations	–	–	–	–	–	–	0.78	1.00	1.21	1.74	1.74	1.48	1.46	1.99	36
Diluted earnings per share discontinued operations	–	–	–	–	–	–	0.68	0.53	–	–	–	–	–	–	
Cash flow per share total Fortum	1.01	0.67	0.54	1.43	1.60	1.86	2.06	1.61	1.31	1.88	2.26	2.55	1.62	1.82	12
Cash flow per share continuing operations	–	–	–	–	–	–	1.44	1.46	1.31	1.88	2.26	2.55	1.62	1.82	12
Equity per share	5.06	6.00	6.32	6.49	6.97	7.55	8.65	8.17	8.91	9.43	8.96	9.04	9.24	10.84	17
Dividend per share total Fortum [1]	0.13	0.18	0.23	0.26	0.31	0.42	0.58	1.12	1.26	1.35	1.00	1.00	1.00	1.00[2]	0
Dividend per share continuing operations	–	–	–	–	–	–	–	0.58	0.73	0.77	–	–	–	–	
Dividend per share additional in 2006 and 2007 / discontinued operations in 2005	–	–	–	–	–	–	–	0.54	0.53	0.58	–	–	–	–	
Payout ratio total Fortum, %	46.3	43.4	41.9	45.6	39.2	46.2	39.2	72.3	103.3[4]	77.6[4]	57.5	67.6	68.5	50.3[2]	
Payout ratio continuing operations, %	–	–	–	–	–	–	–	57.4[3]	59.8[4]	44.3[4]	–	–	–	–	
Payout ratio additional dividend in 2006 and 2007 / discontinued operations in 2005, %	–	–	–	–	–	–	–	100.0[3]	43.4[4]	33.3[4]	–	–	–	–	
Dividend yield, %	2.5	4.0	5.3	5.5	5.0	5.1	4.3	7.1	5.8	4.4	6.6	5.3	4.4	6.1[2]	
Price/earnings ratio (P/E)	18.5	10.9	7.9	8.3	7.9	9.0	9.2	10.2	17.7	17.7	8.8	12.8	15.4	8.3	
Share prices															
At the end of the period	5.03	4.50	4.35	4.75	6.25	8.18	13.62	15.84	21.56	30.81	15.23	18.97	22.53	16.49	
Average share price	5.66	4.76	4.18	4.79	5.87	6.94	10.29	13.87	20.39	23.57	24.79	15.91	19.05	19.77	
Lowest share price	4.86	4.24	3.50	4.05	4.75	5.66	7.45	10.45	15.71	20.01	12.77	12.60	17.18	15.53	
Highest share price	6.05	5.80	4.94	5.70	6.52	8.75	13.99	16.90	23.48	31.44	33.00	19.20	22.69	24.09	
Market capitalisation at the end of the period, EUR million	3,949	3,532	3,456	4,017	5,286	6,943	11,810	13,865	19,132	27,319	13,519	16,852	20,015	14,649	
Trading volumes [5]															
Number of shares, 1,000 shares	17,643	112,398	93,900	134,499	251,216	270,278	478,832	900,347	830,764	787,380	628,155	580,899	493,375	524,858	
In relation to the weighted average number of shares, %	2.2	14.3	11.9	16.8	29.7	31.9	59.2	103.2	94.3	88.5	70.8	65.4	55.5	59.1	
Number of shares, 1,000 shares	784,783	784,783	845,609	845,609	845,776	849,813	867,084	875,294	887,394	886,683	887,638	888,367	888,367	888,367	
Number of shares excluding own shares, 1,000 shares	N/A	N/A	794,571	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Average number of shares, 1,000 shares	784,783	784,783	787,223	798,346	845,642	846,831	852,625	872,613	881,194	889,997	887,256	888,230	888,367	888,367	
Diluted adjusted average number of shares, 1,000 shares	–	–	787,223	798,308	851,482	858,732	861,772	887,653	886,929	891,395	887,839	888,230	888,367	888,367	

[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 11 April 2012.*

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

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

[5] *Trading volumes in the table represent volumes traded on NASDAQ OMX Helsinki. In addition to that, Fortum shares were traded on several alternative market places (for example at Chi-X, BATS, Boat and Turquoise). The total volume of all trades, including also the primary market place, was approximately 1,058 million shares (2010: 1,017) and the turnover was approximately EUR 21,093 million (2010: 19,400) in 2011. In 2011, alternative market places accounted for approximately 50% (2010: 51%) of the total amount of Fortum Corporation shares traded.*

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

See Definitions of key figures on pages 104 and 105.

Operational key figures, volumes

		2004	2005	2006	2007	2008	2009	2010	2011
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
Heat generation	TWh	25.4	25.1	25.8	26.1	25.0	23.2	26.1	22.0
Fortum's total power and heat generation in Russia									
Power generation	TWh	–	–	–	–	11.6	16.0	16.1	17.4
Heat generation	TWh	–	–	–	–	15.3	25.6	26.0	25.4
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
Nuclear power	TWh	25.8	25.8	24.4	24.9	23.7	21.4	22.0	24.9
Thermal power	TWh	9.5	4.2	9.0	6.2	5.0	4.6	8.3	7.2
Total	TWh	**54.4**	**51.2**	**53.2**	**51.1**	**51.6**	**48.1**	**52.3**	**53.1**
Fortum's own power generation by source, total in the Nordic area									
Hydropower	%	35	42	37	39	44	46	42	40
Nuclear power	%	47	50	46	49	46	44	42	47
Thermal power	%	18	8	17	12	10	10	16	13
Total	%	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Power generation capacity by division									
Power	MW		10,003	9,540	9,560	9,575	9,709	9,728	9,752
Heat	MW		1,278	1,373	1,360	1,213	1,446	1,600	1,670
Russia	MW		–	–	–	2,785	2,785	2,785	3,404
Total	MW		**11,281**	**10,913**	**10,920**	**13,573**	**13,940**	**14,113**	**14,826**
Heat production capacity by division									
Power	MW		250	250	250	250	250	250	250
Heat	MW		9,757	10,633	10,973	10,218	10,284	10,448	10,375
Russia	MW		–	–	–	13,796	13,796	13,796	14,107
Total	MW		**10,007**	**10,883**	**11,223**	**24,263**	**24,330**	**24,494**	**24,732**

		2004	2005	2006	2007	2008	2009	2010	2011
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
Heat sales	EUR million	809	867	1,014	1,096	1,157	1,095	1,309	1,278
Fortum's total power and heat sales in Russia									
Electricity sales	EUR million	–	–	–	–	332	390	505	590
Heat sales	EUR million	–	–	–	–	141	219	287	324
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
Sweden	TWh	27.6	30.4	28.5	27.6	28.5	26.9	28.3	29.4
Russia	TWh	–	–	–	–	14.8	19.5	18.7	20.2
Other countries	TWh	3.6	3.3	3.5	3.1	3.0	3.2	3.2	3.6
Total	TWh	**62.3**	**59.7**	**61.6**	**59.7**	**75.0**	**75.7**	**80.9**	**77.8**
Fortum's total heat sales by area									
Finland	TWh	10.5	9.8	10.7	11.1	10.8	8.0	9.6	8.5
Russia	TWh	–	–	–	–	15.3	25.6	26.8	26.7
Sweden	TWh	9.6	9.5	9.3	9.2	9.1	9.8	10.9	8.5
Poland	TWh	0.4	1.1	3.6	3.5	3.6	3.7	4.0	4.3
Other countries	TWh	3.3	3.4	3.2	3.3	3.4	3.5	3.6	3.4
Total	TWh	**23.8**	**23.8**	**26.8**	**27.1**	**42.2**	**50.6**	**54.9**	**51.4**
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
Sweden	TWh	14.2	14.4	14.4	14.3	14.0	14.0	15.2	14.2
Norway	TWh	2.1	2.2	2.3	2.3	2.3	2.3	2.5	2.3
Estonia	TWh	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Total	TWh	**22.7**	**23.1**	**24.6**	**26.0**	**25.8**	**25.9**	**27.9**	**26.1**

Operational key figures, segments

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

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

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

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

For further information see Note 5 Segment reporting on page 60.

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

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

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

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

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

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

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

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

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

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

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 can not exceed 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, %	$= \dfrac{\text{Profit before taxes continuing operations + interest and other financial expenses continuing operations}}{\text{Capital employed continuing operations average}} \times 100$
Return on net assets, %	$= \dfrac{\text{Operating profit + Share of profit (loss) in associated companies and joint ventures}}{\text{Net assets average}} \times 100$
Comparable return on net assets, %	$= \dfrac{\text{Comparable operating profit + Share of profit (loss) in associated companies and joint ventures (adjusted for IAS 39 effects and major sales gains or losses)}}{\text{Comparable net assets average}} \times 100$
Capital employed	= Total assets – non-interest bearing liabilities – deferred tax liabilities – provisions
Net assets	= Non-interest bearing assets + interest-bearing assets related to the Nuclear Waste Fund – non-interest bearing liabilities – provisions (non-interest bearing assets and liabilities do not include finance related items, tax and deferred tax and assets and liabilities from fair valuations of derivatives where hedge accounting is applied)
Comparable net assets	= Net assets adjusted for non-interest-bearing assets and liabilities arising from financial derivatives hedging future cash flows where hedge accounting is not applied according to IAS 39
Interest-bearing net debt	= Interest-bearing liabilities – liquid funds
Gearing, %	$= \dfrac{\text{Interest-bearing net debt}}{\text{Total equity}} \times 100$
Equity-to-assets ratio, %	$= \dfrac{\text{Total equity including non-controlling interests}}{\text{Total assets}} \times 100$
Net debt / EBITDA	$= \dfrac{\text{Interest-bearing net debt}}{\text{Operating profit + Depreciation, amortisation and impairment charges}}$
Comparable net debt / EBITDA	$= \dfrac{\text{Interest-bearing net debt}}{\text{Comparable EBITDA}}$
Net debt / EBITDA continuing operations	$= \dfrac{\text{Interest-bearing net debt}}{\text{Operating profit continuing operations + Depreciation, amortisation and impairment charges continuing operations}}$
Comparable net debt / EBITDA continuing operations	$= \dfrac{\text{Interest-bearing net debt}}{\text{Comparable EBITDA continuing operations}}$
Interest coverage	$= \dfrac{\text{Operating profit}}{\text{Net interest expenses}}$
Interest coverage including capitalised borrowing costs	$= \dfrac{\text{Operating profit}}{\text{Net interest expenses – capitalised borrowing costs}}$
Average number of employees	Based on monthly average for the whole period
Earnings per share (EPS)	$= \dfrac{\text{Profit for the period – non-controlling interests}}{\text{Average number of shares during the period}}$
Cash flow per share	$= \dfrac{\text{Net cash from operating activities}}{\text{Average number of shares during the period}}$
Equity per share	$= \dfrac{\text{Shareholders' equity}}{\text{Number of shares at the end of the period}}$
Payout ratio, %	$= \dfrac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$
Payout ratio continuing operations, %	$= \dfrac{\text{Dividend per share continuing operations}}{\text{Earnings per share continuing operations}} \times 100$
Dividend yield, %	$= \dfrac{\text{Dividend per share}}{\text{Share price at the end of the period}} \times 100$
Price/earnings (P/E) ratio	$= \dfrac{\text{Share price at the end of the period}}{\text{Earnings per share}}$
Average share price	$= \dfrac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$
Market capitalisation	= Number of shares at the end of the period × 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

Parent company financial statements, Finnish GAAP (FAS)

Income statement

EUR million	Note	2011	2010
Sales	2	**77**	**67**
Other income	3	36	12
Employee costs	4	–36	–35
Depreciation, amortisation and write-downs	7	–8	–9
Other expenses		–67	–55
Operating profit		**2**	**–20**
Financial income and expenses	5	874	385
Profit after financial items		**876**	**365**
Group contributions [1]		542	812
Profit before income tax		**1,418**	**1,177**
Income tax expense	6	–101	–149
Profit for the period		**1,317**	**1,028**

[1] *Taxable profits transferred from Finnish subsidiaries.*

Balance sheet

EUR million	Note	31 Dec 2011	31 Dec 2010
ASSETS			
Non-current assets			
Intangible assets	7	15	10
Property, plant and equipment	7	11	13
Investments in group companies	7	15,645	15,645
Interest-bearing receivables from group companies	7	1,777	1,961
Investments in associated companies	7	0	0
Interest-bearing receivables from associated companies	7	1	1
Other non-current assets	7	4	4
Deferred tax assets		5	3
Total non-current assets		**17,458**	**17,637**
Current assets			
Other current receivables from group companies	8	552	823
Other current receivables from associated companies	8	0	0
Other current receivables	8	62	48
Cash and cash equivalents	9	460	116
Total current assets		**1,074**	**987**
Total assets		**18,532**	**18,624**

EUR million	Note	31 Dec 2011	31 Dec 2010
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	10		
Share capital		3,046	3,046
Share premium		2,822	2,822
Retained earnings		3,304	3,164
Profit for the period		1,317	1,028
Total shareholders' equity		**10,489**	**10,060**
Provisions for liabilities and charges		**0**	**0**
LIABILITIES			
Non-current liabilities			
External interest-bearing liabilities	11	5,952	5,650
Interest-bearing liabilities to group companies	11	814	1,360
Interest-bearing liabilities to associated companies	11	223	213
Other non-current liabilities		5	8
Total non-current liabilities		**6,994**	**7,231**
Current liabilities			
External interest-bearing liabilities	11	761	803
Trade and other payables to group companies	12	46	79
Trade and other payables to associated companies	12	4	3
Trade and other payables	12	238	448
Total current liabilities		**1,049**	**1,333**
Total liabilities		**8,043**	**8,564**
Total equity and liabilities		**18,532**	**18,624**

Cash flow statement

EUR million	2011	2010
Cash flow from operating activities		
Profit for the period	**1,317**	**1,028**
Adjustments:		
Income tax expense	101	149
Group contributions	–542	–812
Finance costs – net	–874	–385
Depreciations, amortisation and write-downs	8	9
Operating profit before depreciations	**10**	**–11**
Non-cash flow items and divesting activities	–3	–6
Interest and other financial income	87	44
Interest and other financial expenses paid, net	–225	–239
Dividend income	1,088	920
Group contribution received	812	792
Realised foreign exchange gains and losses	–151	282
Income taxes paid	–167	–160
Funds from operations	**1,451**	**1,622**
Change in interest-free receivables, decrease (+) / increase (-)	–1	9
Change in interest-free payables, decrease (-) / increase (+)	–35	277
Change in working capital	**–36**	**286**
Net cash from operating activities	**1,415**	**1,908**
Cash flow from investing activities		
Capital expenditures	–9	–8
Acquisition of shares and capital contributions in subsidiaries	–50	–
Acquisition of other shares	–1	–1
Proceeds from sales of fixed assets	0	1
Proceeds from sales of shares in associates	–	4
Change in interest-bearing receivables and other non-current assets	184	–1,262
Net cash used in investing activities	**124**	**–1,266**
Cash flow before financing activities	**1,539**	**642**
Cash flow from financing activities		
Proceeds from long-term liabilities	266	721
Payment of long-term liabilities	–268	–855
Change in short-term liabilities	–305	282
Dividends paid	–888	–888
Net cash used in financing activities	**–1,195**	**–740**
Net increase (+) / decrease (–) in cash and cash equivalents	**344**	**–98**
Cash and cash equivalents at the beginning of the period	**116**	**214**
Cash and cash equivalents at the end of the period	**460**	**116**
Net increase (+) / decrease (–) in cash and cash equivalents	**344**	**–98**

Parent company notes to the financial statements, FAS

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 tangible assets 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 as determined by the pension fund according to the actuarial assumptions pursuant to the Finnish Employees' Pension Act.

1.7 Long-term incentive schemes

Costs related to the Fortum long-term incentive plans are accrued over the plan period and the related liability is booked to the balance sheet.

1.8 Provisions

Foreseeable future expenses and losses that have no corresponding revenue to which Fortum is committed or obliged to settle, and whose monetary value can be reasonably assessed, are entered as expenses in the income statement and included as provisions in the balance sheet.

2 SALES BY MARKET AREA

EUR million	2011	2010
Finland	61	61
Other countries	16	6
Total	**77**	**67**

3 OTHER INCOME

EUR million	2011	2010
Gain on sales of shareholdings	–	4
Rental and other income	36	8
Total	**36**	**12**

4 EMPLOYEE COSTS

EUR million	2011	2010
Personnel expenses		
Wages, salaries and remunerations	29	28
Indirect employee costs		
Pension costs	5	5
Other indirect employee costs	1	1
Other personnel expenses	1	1
Total	**36**	**35**
Salaries and remunerations		
President and CEO	2	2
Board of Directors	0	0
Supervisory Board	0	0
Total	**2**	**2**

Supervisory Board has been dissolved in April 2011.

For the President and CEO the retirement age is 63. The pension obligations are covered either through insurance companies or through the Fortum Pension Fund.

See also Note 14 Employee costs and management remuneration on page 68 and Note 37 Pension obligations on page 91 in the Consolidated financial statements.

	2011	2010
Average number of employees	**302**	**305**

5 FINANCIAL INCOME AND EXPENSES

EUR million	2011	2010
Dividend income from group companies	1,088	920
Dividend income from associated companies and other companies	0	0
Interest and other financial income from group companies	76	27
Write-downs of participations in group companies	–50	–320
Interest and other financial income	4	1
Exchange rate differences	10	–8
Interest and other financial expenses to group companies	–45	–20
Interest and other financial expenses	–209	–215
Total	**874**	**385**
Total interest income and expenses		
Interest income	80	28
Interest expenses	–249	–230
Interest net	**–169**	**–202**

Write-downs of participations in group companies are related to shares in Fortum Heat and Gas Oy. Write-downs are a consequence of received dividends.

6 INCOME TAX EXPENSE

EUR million	2011	2010
Taxes on regular business operations	–40	–62
Taxes on group contributions	141	211
Total	**101**	**149**
Current taxes for the period	91	181
Current taxes for prior periods	12	0
Changes in deferred tax	–2	–32
Total	**101**	**149**

7 NON-CURRENT ASSETS

INTANGIBLE ASSETS

EUR million	Intangible assets total
Cost 1 January 2011	**33**
Additions	9
Disposals	0
Cost 31 December 2011	**42**
Accumulated depreciation 1 January 2011	**23**
Disposals	0
Depreciation for the period	4
Accumulated depreciation 31 December 2011	**27**
Carrying amount 31 December 2011	**15**
Carrying amount 31 December 2010	**10**

PROPERTY, PLANT AND EQUIPMENT

EUR million	Buildings and structures	Machinery and equipment	Advances paid and construction in progress	Total
Cost 1 January 2011	**1**	**28**	**7**	**36**
Additions	0	3	–	3
Disposals	–	0	–2	–2
Cost 31 December 2011	**1**	**31**	**5**	**37**
Accumulated depreciation 1 January 2011	**0**	**23**	**–**	**23**
Disposals	–	0	–	0
Depreciation for the period	0	3	–	3
Accumulated depreciation 31 December 2011	**0**	**26**	**–**	**26**
Carrying amount 31 December 2011	**1**	**5**	**5**	**11**
Carrying amount 31 December 2010	**1**	**5**	**7**	**13**

INVESTMENTS

EUR million	Shares in Group companies	Receivables from Group companies	Shares in associated companies	Receivables from associated companies	Other non-current assets	Total
1 January 2011	**16,365**	**1,961**	**0**	**1**	**4**	**18,331**
Additions [1)]	50	–	–	–	1	51
Disposals	–	–184	–	0	–1	–185
31 December 2011	**16,415**	**1,777**	**0**	**1**	**4**	**18,197**
Accumulated depreciation 1 January 2011	**–720**	**–**	**–**	**–**	**–**	**–720**
Impairment charges	–50	–	–	–	–	–50
Accumulated depreciation 31 December 2011 [2)]	**–770**	**–**	**–**	**–**	**–**	**–770**
Carrying amount 31 December 2011	**15,645**	**1,777**	**0**	**1**	**4**	**17,427**

[1)] *Additions regarding shares comprise acquisitions of shares and capital contributions.*

[2)] *Write-downs of participations in group companies are related to shares in Fortum Heat and Gas Oy. Write-downs are a consequence of received dividends.*

1 2 3 4 5 6 7 8 9 10 11 12 13 14

8 OTHER CURRENT RECEIVABLES

EUR million	2011	2010
Other current receivables from group companies		
Trade receivables	8	8
Other receivables	542	812
Accrued income and prepaid expenses	2	3
Total	**552**	**823**
Other current receivables from associated companies		
Trade receivables	0	0
Other current receivables		
Trade receivables	0	0
Other receivables	0	0
Accrued income and prepaid expenses	62	48
Total	**62**	**48**

9 CASH AND CASH EQUIVALENTS

EUR million	2011	2010
Cash at bank and in hand	114	116
Bank deposits	346	–
Cash and cash equivalents	**460**	**116**

10 CHANGES IN SHAREHOLDERS' EQUITY

EUR million	Share capital	Share premium	Retained earnings	Total
Total equity 31 December 2010	**3,046**	**2,822**	**4,192**	**10,060**
Cash dividend	–	–	–888	–888
Profit for the period	–	–	1,317	1,317
Total equity 31 December 2011	**3,046**	**2,822**	**4,621**	**10,489**
Total equity 31 December 2009	**3,046**	**2,822**	**4,052**	**9,920**
Cash dividend	–	–	–888	–888
Profit for the period	–	–	1,028	1,028
Total equity 31 December 2010	**3,046**	**2,822**	**4,192**	**10,060**

EUR million	2011	2010
Distributable funds 31 December	4,621	4,192

11 INTEREST-BEARING LIABILITIES

EXTERNAL INTEREST-BEARING LIABILITIES

EUR million	2011	2010
Bonds	4,346	4,231
Loans from financial institutions	741	595
Other long-term interest-bearing debt	865	824
Total long-term interest-bearing debt	**5,952**	**5,650**
Current portion of long-term bonds	393	223
Current portion of loans from financial institutions	112	45
Commercial papers	122	534
Other short-term interest-bearing debt	134	1
Total short-term interest-bearing debt	**761**	**803**
Total external interest-bearing debt	**6,713**	**6,453**

MATURITY OF EXTERNAL INTEREST-BEARING LIABILITIES

EUR million	2011
2012	761
2013	525
2014	1,153
2015	1,021
2016	831
2017 and later	2,422
Total	**6,713**

EXTERNAL INTEREST-BEARING LIABILITIES DUE AFTER FIVE YEARS

EUR million	2011	2010
Bonds	1,302	1,553
Loans from financial institutions	449	254
Other long-term liabilities	671	630
Total	**2,422**	**2,437**

OTHER INTEREST-BEARING LIABILITIES DUE AFTER FIVE YEARS

EUR million	2011	2010
Interest-bearing liabilities to group companies	17	17
Interest-bearing liabilities to associated companies	223	213
Total	**240**	**230**

12 TRADE AND OTHER PAYABLES

EUR million	2011	2010
Trade and other payables to group companies		
Trade payables	2	9
Other liabilities	44	70
Accruals and deferred income	0	0
Total	**46**	**79**
Trade and other payables to associated companies		
Accruals and deferred income	4	3
Total	**4**	**3**
Trade and other payables		
Trade payables	10	7
Other liabilities	7	8
Accruals and deferred income	221	433
Total	**238**	**448**

13 CONTINGENT LIABILITIES

EUR million	2011	2010
On own behalf		
Other contingent liabilities	5	5
On behalf of group companies		
Guarantees	663	751
On behalf of associated companies		
Guarantees	303	300
Contingent liabilities total	**971**	**1,056**

OPERATING LEASES

EUR million	2011	2010
Lease payments		
Not later than 1 year	1	1
Later than 1 year and not later than 5 years	1	0
Total	**2**	**1**

DERIVATIVES

	2011			2010		
EUR million	Contract or notional value	Fair value	Not recognised as an income	Contract or notional value	Fair value	Not recognised as an income
Forward rate agreements	196	0	0	167	0	0
Interest rate swaps	4,737	140	107	4,091	96	57
Forward foreign exchange contracts [1)]	17,276	–63	7	17,893	–195	6
Interest rate and currency swaps	247	1	–1	459	–20	1

[1)] *Includes also future positions.*

14 RELATED PARTY TRANSACTIONS

See Note 45 Related party transactions on page 96 in the Consolidated financial statements.

Proposal for the distribution of earnings

Parent company's distributable equity as of 31 December 2011 amounted to EUR 4,620,804,659.85. After the end of the financial period there have been no material changes in the financial position of the Company.

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a dividend of EUR 1.00 per share for 2011, totalling EUR 888,367,045 based on the number of registered shares as of 31 January 2012.

Espoo, 31 January 2012

Sari Baldauf

Esko Aho

Minoo Akhtarzand

Heinz-Werner Binzel

Ilona Ervasti-Vaintola

Joshua Larson

Christian Ramm-Schmidt

Tapio Kuula
President and CEO

Auditor's report

To the Annual General Meeting of Fortum Oyj

We have audited the accounting records, the financial statements, the Operating and financial review, and the administration of Fortum Oyj for the financial period 1.1.-31.12.2011. 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 Supervisory Board, Board of Directors and the President and CEO

The responsibility of the Supervisory Board is to supervise the company's administration by the Board of Directors and the President and CEO. In accordance with a proposal by the State of Finland and the Finnish Shareholders Association, the Supervisory Board was dissolved by the Annual General Meeting held on 31 March 2011 and all members of the Supervisory Board were re-elected for a short term of office ending 4 April 2011 when the appropriate amendments to the company's Articles of Association were registered. 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 Supervisory Board, 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 Supervisory Board, 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, 31 January 2012

Deloitte & Touche Oy
Authorized Public Audit Firm

Jukka Vattulainen
Authorized Public Accountant

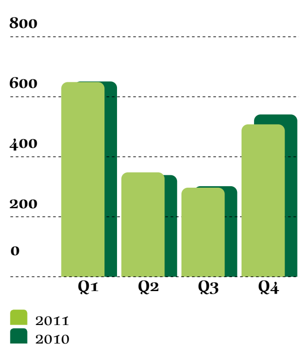
Quarterly financial information

SELECTED DATA BASED ON QUARTERLY CONSOLIDATED INCOME STATEMENT

EUR million	Q1/2010	Q2/2010	Q3/2010	Q4/2010	2010	Q1/2011	Q2/2011	Q3/2011	Q4/2011	2011
Sales	**1,947**	**1,295**	**1,152**	**1,902**	**6,296**	**2,034**	**1,316**	**1,144**	**1,667**	**6,161**
Comparable EBITDA	**788**	**478**	**442**	**688**	**2,396**	**798**	**481**	**444**	**651**	**2,374**
Comparable operating profit	**651**	**339**	**302**	**541**	**1,833**	**649**	**348**	**297**	**508**	**1,802**
Operating profit	**724**	**351**	**312**	**321**	**1,708**	**900**	**609**	**314**	**579**	**2,402**
Share of profit/loss of associates and joint ventures	16	15	10	21	62	59	15	–2	19	91
Finance costs – net	–27	–34	–37	–57	–155	–55	–72	–72	–66	–265
Profit before income tax	**713**	**332**	**285**	**285**	**1,615**	**904**	**552**	**240**	**532**	**2,228**
Income tax expense	–130	–61	–45	–25	–261	–158	–74	–46	–88	–366
Profit for the period	**583**	**271**	**240**	**260**	**1,354**	**746**	**478**	**194**	**444**	**1,862**
Profit for the period, non-controlling interests	–24	–8	7	–29	–54	–68	–6	4	–23	–93
Profit for the period, owners of the parent	**559**	**263**	**247**	**231**	**1,300**	**678**	**472**	**198**	**421**	**1,769**
Earnings per share, basic, EUR	**0.63**	**0.30**	**0.27**	**0.26**	**1.46**	**0.76**	**0.53**	**0.23**	**0.47**	**1.99**
Earnings per share, diluted, EUR	**0.63**	**0.30**	**0.27**	**0.26**	**1.46**	**0.76**	**0.53**	**0.23**	**0.47**	**1.99**

SALES BY QUARTER, EUR MILLION

COMPARABLE OPERATING PROFIT BY QUARTER, EUR MILLION



Power and heat business is highly seasonal, the first and last quarters being the strongest

QUARTERLY SALES BY SEGMENTS

EUR million	Q1/2010	Q2/2010	Q3/2010	Q4/2010	2010	Q1/2011	Q2/2011	Q3/2011	Q4/2011	2011
Power	769	597	584	752	2,702	693	574	560	654	2,481
Heat	651	301	220	598	1,770	725	322	212	478	1,737
Russia	244	169	137	254	804	295	195	156	274	920
Distribution	280	200	196	287	963	311	215	203	244	973
Electricity Sales	637	327	305	529	1,798	373	183	139	205	900
Other	5	16	23	7	51	30	19	27	32	108
Netting of Nord Pool Spot transactions [1]	–683	–261	–264	–528	–1,736	–366	–150	–99	–134	–749
Eliminations	44	–54	–49	3	–56	–27	–42	–54	–86	–209
Total	**1,947**	**1,295**	**1,152**	**1,902**	**6,296**	**2,034**	**1,316**	**1,144**	**1,667**	**6,161**

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

QUARTERLY COMPARABLE OPERATING PROFIT BY SEGMENTS

EUR million	Q1/2010	Q2/2010	Q3/2010	Q4/2010	2010	Q1/2011	Q2/2011	Q3/2011	Q4/2011	2011
Power	424	271	267	336	1,298	325	257	268	351	1,201
Heat	132	33	–12	122	275	171	25	–14	96	278
Russia	16	–9	–16	17	8	34	21	–16	35	74
Distribution	102	53	61	91	307	124	60	62	49	295
Electricity Sales	–13	10	11	3	11	11	10	4	2	27
Other	–10	–19	–9	–28	–66	–16	–25	–7	–25	–73
Comparable operating profit	**651**	**339**	**302**	**541**	**1,833**	**649**	**348**	**297**	**508**	**1,802**
Non-recurring items	46	4	36	7	93	82	193	0	9	284
Other items affecting comparability	27	8	–26	–227	–218	169	68	17	62	316
Operating profit	**724**	**351**	**312**	**321**	**1,708**	**900**	**609**	**314**	**579**	**2,402**

The first and last quarters of the year are usually the strongest quarters for power and heat businesses.

Quarterly information from 2005 to 2011 is available on Fortum's website www.fortum.com/investors/financial information.

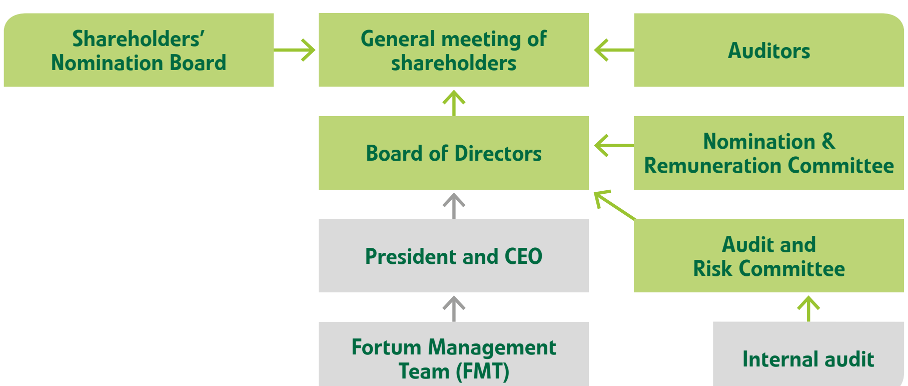
Corporate Governance

Well-defined and transparent corporate governance provides a structure for responsible, value-oriented performance and supervisory functions of the company. It is an imperative that works for the benefit of Fortum's shareholders, financial markets, business partners, employees and the public.

The Board of Directors' and the President and CEO's responsibility for the administration and management of the company is regulated in the Finnish Companies Act, which is supplemented by the Finnish Corporate Governance Code. In the following, you will find Fortum's Corporate Governance Statement, as recommended in the Corporate Governance Code and information on management remuneration, followed by the biographical presentations.

Insider administration at Fortum is presented on the web at www.fortum.com/insideradministration

GOVERNING BODIES OF FORTUM



Corporate Governance Statement

Corporate governance at Fortum is based on the laws of Finland, the company's Articles of Association and the Finnish Corporate Governance Code 2010. This Corporate Governance Statement has been prepared pursuant to Recommendation 54 of the Code and Chapter 2, Section 6 of the Securities Markets Act. The Corporate Governance Statement is issued separately from the company's Operating and financial review report.

The company complies with the Finnish Corporate Governance Code. In addition, Fortum complies with the rules of NASDAQ OMX Helsinki Ltd, where it is listed, and the rules and regulations of the Finnish Financial Supervisory Authority. Fortum's headquarters is located in Espoo, Finland.

The Corporate Governance Code is available on the website of the Securities Markets Association (www.cgfinland.fi).

Fortum prepares consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the Securities Markets Act as well as the appropriate Financial Supervision Authority's standards and NASDAQ OMX Helsinki Ltd's rules. The company's Operating and financial review report and parent company financial statements are prepared in accordance with the Finnish Accounting Act and the opinions and guidelines of the Finnish Accounting Board. The auditor's report covers the Operating and financial review report, consolidated financial statements and the parent company financial statements.

ORGANISATION AND GOVERNING BODIES OF THE GROUP

The decision-making bodies managing and overseeing the group's administration and operations are the Annual General Meeting of Shareholders, the Board of Directors with its two Committees and the President and Chief Executive Officer (CEO) assisted by the Fortum Management Team. The Board of Directors supervises the performance of the company, its management and organisation. The Board of Directors and the Fortum Management Team are separate bodies, and no person serves as a member of more than one of them.

Day-to-day operational responsibility at the group level rests with the President and CEO assisted by the Fortum Management Team, and at division level with each division head assisted by a management team.

In Fortum's Annual General Meeting 2011, the State of Finland and the Finnish Shareholders Association (Osakesäästäjien keskusliitto) proposed to dissolve the Supervisory Board and accordingly to amend the Articles of Association of Fortum. The proposal was accepted and the changes to the Articles of Association entered into force on 4 April 2011.

In 2011 Fortum's Board of Directors invited representatives of Fortum's stakeholder groups to an informal Advisory Council for the company in order to facilitate dialogue and exchange of views between Fortum and its stakeholders.

General Meeting of Shareholders

The right of shareholders to make decisions over company matters is exercised at an appropriately convened General Meeting of Shareholders by those shareholders present, or by their authorised representatives. In accordance with the Articles of Association and Finnish Corporate Governance Code, a notice to convene the General Meeting of Shareholders is issued by the Board of Directors. The notice is delivered no more than three months and no less than three weeks before the General Meeting of Shareholders by publishing the notice in two newspapers chosen by the Board of Directors. However, the notice shall be delivered at least nine days before the record date of the General Meeting of Shareholders, as referred to in the Section 2, Sub-section 2 Chapter 4, of the Companies Act.

The Annual General Meeting is held once a year, at the latest in June. An Extraordinary General Meeting of Shareholders shall be held whenever the Board of Directors finds cause for such a meeting or when provisions of the law rule that such a meeting must be held.

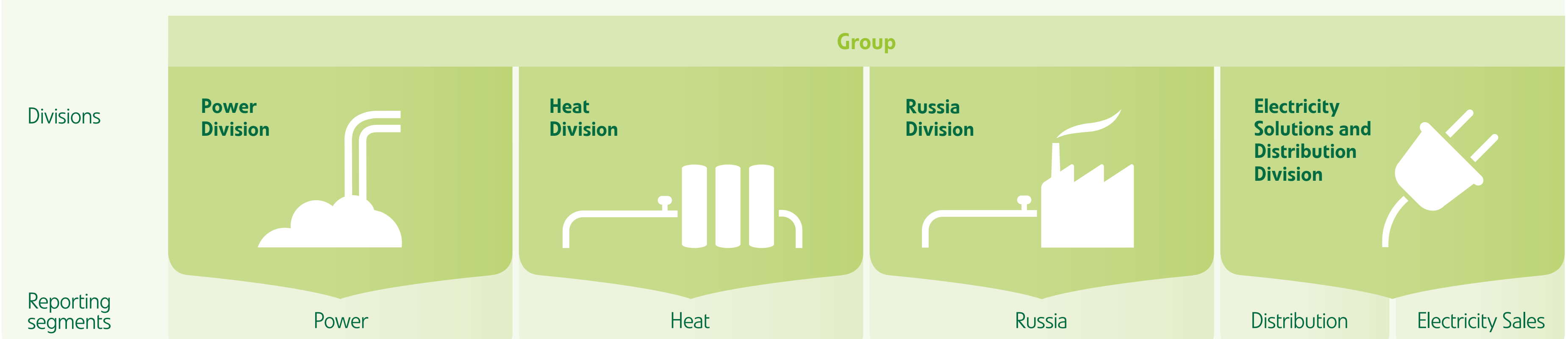
Shareholders' Nomination Board

By decision of Fortum's Annual General Meeting 2011, a Shareholders' Nomination Board was appointed to prepare proposals concerning Board members and their remuneration for the following Annual General Meeting. The Nomination Board consists of the representatives of the three main

THE DUTIES OF THE ANNUAL GENERAL MEETING INCLUDE:

- Adopt the parent company financial statements and the consolidated financial statements
- Decide on the treatment of the distributable funds
- Elect the members of the Board of Directors
- Decide on the discharge from liability for the Board of Directors and the President and CEO
- Decide on the remuneration of the Board of Directors and the remuneration for the auditor
- Elect the auditor

FORTUM'S FINANCIAL REPORTING STRUCTURE



shareholders and, in addition, as expert member the chairman of the Board of Directors.

The three shareholders whose shares represent the largest number of the votes of all shares in the company on the 1st day of November preceding the Annual General Meeting will have the right to appoint the members representing the shareholders. Should a shareholder not wish to use its right to nominate, this right will be passed on to the next biggest shareholder. The largest shareholders will be determined on the basis of the ownership information registered in the book-entry system. In case an owner is required under the Securities Markets Act to report certain changes in ownership (when flagging by shareholder is required), for example when the ownership is distributed among various funds, the ownership will be counted as one holding if the owner so requests by notifying the Board of Directors in writing no later than on 28 October.

The Nomination Board will be convened by the Chairman of the Board of Directors, and the Nomination Board will choose a Chairman among its own members. The Nomination Board shall give its proposal to the Board of Directors of the company at the latest by 1 February preceding the Annual General Meeting.

In November 2011, the following persons have been appointed to Fortum Shareholders' Nomination Board: Pekka Timonen, Director General, Prime Minister's Office, Ownership Steering Department; Mikko Koivusalo, Investments Director, Varma Mutual Pension Insurance Company and Harri Sailas, CEO, Ilmarinen Mutual Pension Insurance Company. The Chairman of Fortum's Board of Directors, Sari Baldauf, serves as the Board's expert member.

In its meeting on 31 January 2012 the Shareholders' Nomination Board decided to propose to the Annual General Meeting, which will be held 11 April 2012, that the following persons be re-elected to the Board of Directors: Sari Baldauf as Chairman, Christian Ramm-Schmidt as Deputy Chairman, and as members Minoo Akhtarzand, Heinz-Werner Binzel, Ilona Ervasti-Vaintola and Joshua Larson. The Shareholders' Nomination Board proposes that Kim Ignatius and Veli Sundbäck be elected as new members of the Board of Directors.

The Board of Directors

The Board of Directors is responsible for the administration of the Group and for ensuring that the business complies with relevant laws and regulations, including the Finnish Companies Act, Fortum's Articles of Association and any instructions given by the General Meeting of Shareholders. The Board of Directors comprises five to eight members who are elected at the Annual General Meeting for a one-year term of

FORTUM'S BOARD OF DIRECTORS 2011

Name	Born	Education	Occupation	Attendance in the Board meetings	Attendance in the Board Committee meetings
Chairman Sari Baldauf	1955	MSc (Econ.)	Non-executive director	10/10	The Nomination and Remuneration Committee, 3/3
Deputy Chairman Christian Ramm-Schmidt	1946	B. Sc (Econ.)	Senior Partner of Merasco Capital Ltd. Non-executive director	10/10	The Audit and Risk Committee, 5/5
Esko Aho	1954	MSc (Pol. Sc.)	Executive Vice President, Corporate Relations and Responsibility, Nokia Corporation Non-executive director	10/10	The Nomination and Remuneration Committee, 3/3
Minoo Akhtarzand [1)]	1956	Civil Engineer, Electrical engineering	Governor in the County of Jönköping Non-executive director	7/8	The Nomination and Remuneration Committee, 2/2
Heinz-Werner Binzel [1)]	1954	Economics and electrical engineering degree	Independent consultant Non-executive director	8/8	The Audit and Risk Committee, 4/4
Ilona Ervasti-Vaintola	1951	LL.M, Trained on the bench	Non-executive director	10/10	The Nomination and Remuneration Committee, 3/3
Joshua Larson	1966	Master of International Affairs, Bachelor in Russian language	Private investor and consultant Non-executive director	10/10	The Audit and Risk Committee, 5/5

MEMBERS OF FORTUM'S BOARD OF DIRECTORS UNTIL 31 MARCH 2011

Chairman Matti Lehti	1947	PhD (Econ.)	Non-executive director	2/2	The Nomination and Remuneration Committee, 1/1
Birgitta Johansson-Hedberg	1947	Bachelor of Art, Master of Psychology	Non-executive director	1/2	The Audit and Risk Committee, 1/1

[1)] *New members as of 31 March 2011*

The Board of Directors' working order

THE MAIN TASKS OF THE BOARD OF DIRECTORS:

- Strategic development and steering of the company's business and fields of activity
- Ensuring that the business complies with the relevant rules and regulations and the company's Articles of Association
- Defining the dividend policy
- Ensuring that the accounting and financial administration are arranged appropriately
- Appointing the top management
- Reviewing the central risks and instructing the President and CEO concerning the risks
- Confirming the annual business plan
- Setting performance targets for the company and the management
- Approving interim reports, consolidated financial statements, Operating and financial review and parent company financial statements
- Taking care of the duties of the company's Board of Directors specified in the Companies Act and in the Articles of Association
- Deciding on major investments, divestments and business arrangements
- Electing members to the Board Committees
- Reporting on the remuneration of the company management at the Annual General Meeting, as appropriate

ANNUAL SELF-ASSESSMENT:

- The Board of Directors conducts an annual self-assessment

PROCEDURES OF BOARD MEETINGS:

- The Board convenes according to a previously agreed schedule to discuss specified themes and other issues whenever considered necessary
- The Chairman decides on the agenda based on proposals by the other members of the Board, the President and CEO, and the secretary to the Board
- The Chairman shall convene a meeting to deal with a specific item, if requested by a member of the Board or the President and CEO
- The Board deals with the reports of the Board committees and the President and CEO
- Material shall be delivered to the members five days before meetings

office, which expires at the end of the first Annual General Meeting following the election. More than half of the members must be present to constitute a quorum. A person who has reached the age of 68 cannot be elected to the Board of Directors. In 2011, the Board of Directors comprised seven members; three including the Chairman are women.

In 2011, the Board of Directors met ten times. In addition to steering and supervising the Group's operational and financial development, the main items during the year were Fortum's strategy, annual business plan, performance target setting and assessment, risk policy and financial reporting. Main items also included nuclear power, major investments and divestments, Russian operations and research and development activities. The Board also dealt with issues relating to sustainable business development, management performance and remuneration.

The members of the Board of Directors are all independent of the company and its significant shareholders. Ilona Ervasti-Vaintola has been dependent on the company (interlocking control relationship until 31 October 2011). The President and CEO, the Chief Financial Officer and the General Counsel (being the secretary to the Board) attend the Board meetings. Other Fortum Management Team members attend as required to provide information to the Board or upon invitation by the Board.

The Chairman of the Board, together with the President and CEO, prepares the items for discussion and to be decided upon at the Board of Directors' meetings. The Board of Directors has approved a working order to govern its work.

The main contents of the working order are presented on the left.

The Board of Directors conducts an annual self-assessment in order to further develop the work of the Board. The assessment process analyses the efficiency of the work, the size and composition of the Board, the preparation of the agenda, and the level and openness of discussions, as well as the members' ability to contribute to an independent judgement.

The Board Committees

The Board of Directors appoints an Audit and Risk Committee and a Nomination and Remuneration Committee, both with at least three members. The members of these committees are all members of the Board of Directors. Members are appointed for a one-year term of office, which expires at the end of the first Annual General Meeting following the election. All the members of the Board of Directors have the right to participate in the committee meetings. The secretary to the Board of Directors acts as the secretary to the committees. The Board has approved written charters for the committees.

THE TASKS OF AUDIT AND RISK COMMITTEE INCLUDE:

- Monitoring the reporting process of financial statements
- Supervising the financial reporting process
- Monitoring the efficiency of the company's internal control, internal audit, if applicable, and risk management systems
- Reviewing the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in the company's Corporate Governance Statement
- Monitoring the statutory audit of the parent company financial statements and consolidated financial statements
- Evaluating the independence of the statutory auditor or audit firm, particularly the non-audit services provided to the company to be audited
- Preparing through the Board a proposal for resolution on the election of the auditor for the shareholders' consideration at the Annual General Meeting
- Reviewing the Corporate Governance Statement
- Monitoring the financial position of the company
- Approving the operating instructions for internal audit
- Reviewing the plans and reports of the internal audit function
- Being in contact with the statutory auditor and reviewing the reports that the auditor prepares for the Committee

The main tasks in the charters for the Board Committees are outlined on this page.

The Audit and Risk Committee

The Audit and Risk Committee assists the Board of Directors in fulfilling its supervisory responsibilities in accordance with the tasks specified for audit committees in the Finnish Corporate Governance Code.

The Audit and Risk Committee annually reviews its charter, approves the internal audit charter and the internal audit plan and carries out a self-assessment of its work. Furthermore, the Committee meets the external auditors regularly to discuss the audit plan, audit reports and findings.

The Audit and Risk Committee reports on its work to the Board of Directors regularly after each meeting.

After the Annual General Meeting in March 2011, the Board elected among itself Christian Ramm-Schmidt as the Chairman and Joshua Larson and Heinz-Werner Binzel as members to the Audit and Risk Committee. The former Board member Birgitta Johansson-Hedberg acted as the Chairman and Christian Ramm-Schmidt as a member until the Annual General Meeting 2011.

The Committee met five times in 2011. Also regularly participating in the Committee's meetings were external auditors, Chief Financial Officer (CFO), Head of Internal Audit, Corporate Controller, General Counsel as the secretary to the Committee and other parties invited by the Committee.

The main items during the year included reviewing the interim reports, the financial statements, external audit reports, internal audit reports, risk management reports and policies, the Corporate Governance Statement as well as monitoring of certain important projects and issues and preparing a recommendation for the election of the external auditor.

The Nomination and Remuneration Committee

After the Annual General Meeting in March 2011, the Board elected among itself Sari Baldauf as the Chairman and Esko Aho, Minoo Akhtarzand and Ilona Ervasti-Vaintola as members to the Nomination and Remuneration Committee. The former Chairman of the Board, Matti Lehti, acted as the Chairman and Sari Baldauf as a member until the Annual General Meeting 2011. The Committee met three times during 2011. Other regular participants at the Committee meetings were the President and CEO, Senior Vice President, Corporate Human Resources and General Counsel as the secretary to the Committee.

The Nomination and Remuneration Committee reports on its work to the Board of Directors regularly after each meeting.

THE TASKS OF NOMINATION AND REMUNERATION COMMITTEE INCLUDE:

- Discussing, assessing and giving proposals on the Group's, and its management's pay structures and bonus and incentive systems
- Monitoring the functioning of the bonus systems to ensure that the management's bonus systems will advance the achievement of the company's objectives and are based on personal performance
- Evaluating the performance and the remuneration of the President and CEO and executives reporting directly to the President and CEO
- Preparing nomination and remuneration issues and making proposals to the Board concerning the President and CEO and the management directly reporting to the President and CEO
- Assisting the Board in reporting on remuneration at the Annual General Meeting, as necessary

The main items during the year included the top management performance evaluations and compensation including incentive programme matters and performance target-setting for the management.

President and CEO

The role of the President and CEO is to manage the Group's business and administration in accordance with the Finnish Companies Act and related legislation and the instructions from the Board of Directors. MSc (Eng), MSc (Econ) Tapio Kuula, (born 1957) has acted as the President and CEO since May 2009.

The President and CEO is supported by the Fortum Management Team. The performance of the President and CEO is evaluated annually by the Board of Directors. The evaluation is based on objective criteria that include the performance of the company and the achievement of goals set for the President and CEO by the Board's Nomination and Remuneration Committee.

Fortum Management Team and operational organisation

The Fortum Management Team consists of nine members [1], including the President and CEO to whom the members of the Management Team report. Two members of the Fortum Management Team are women. The General Counsel acts as the secretary to the Management Team. The Management Team meets on a monthly basis. Additional meetings are held dealing with strategy and business planning, performance reviews and people issues such as management reviews.

The Fortum Management Team sets the strategic targets, prepares the Group's annual business plans, follows up the results, plans and decides on investments, mergers, acquisitions and divestments within their authorisation. Each member of the Management Team is responsible for the key day-to-day operations and the implementation of operational decisions in their respective organisations.

The divisions of Fortum are Power, Heat, Russia, and Electricity Solutions and Distribution. Power Division consists of Fortum's power generation, physical operation and trading, maintenance and development of power plants and expert services for power producers. Heat Division consists of combined heat and power generation, district heating and cooling activities and business-to-business heating solutions. Russia Division consists of power and heat generation and sales in Russia. It includes OAO Fortum and Fortum's 25% holding in TGC-1. Electricity Solutions and Distribution Division is responsible for Fortum's electricity sales and distribution activities and consists of two business areas: Distribution and Electricity Sales. The staff functions are Corporate Finance, Corporate Relations and Sustainability, Corporate Human Resources, Corporate Strategy and R&D. From 1 Jan 2012 onwards the staff functions are: Corporate Finance, Corporate Relations and Strategy, Corporate Human Resources and Corporate R&D and Innovation.

Internal audit

Fortum's Corporate Internal audit is responsible for assessing and assuring the adequacy and effectiveness of internal controls in the company. Furthermore, it evaluates the effectiveness and efficiency of the business processes, the adequacy of risk management, compliance with laws, regulations and internal rules and instructions.

The Standards for the Professional Practice of Internal Audit form the basis for the work of Internal audit.

Corporate Internal audit is independent of the divisions and other units at Fortum. It reports to the Audit and Risk Committee of the Board of Directors and administratively to the CFO. The purpose, authority and responsibility of Corporate Internal audit are formally defined in its charter. The charter and the annual audit plan are approved by the Audit and Risk Committee.

External audit

The company has one auditor, which shall be an audit firm certified by the Central Chamber of Commerce. The auditor is elected by the Annual General Meeting for a term of office that expires at the end of the first Annual General Meeting following the election.

Fortum Corporation's Annual General Meeting on 31 March 2011 elected Authorised Public Accountant Deloitte & Touche Oy as auditor, with Authorised Public Accountant Jukka Vattulainen having the principal responsibility.

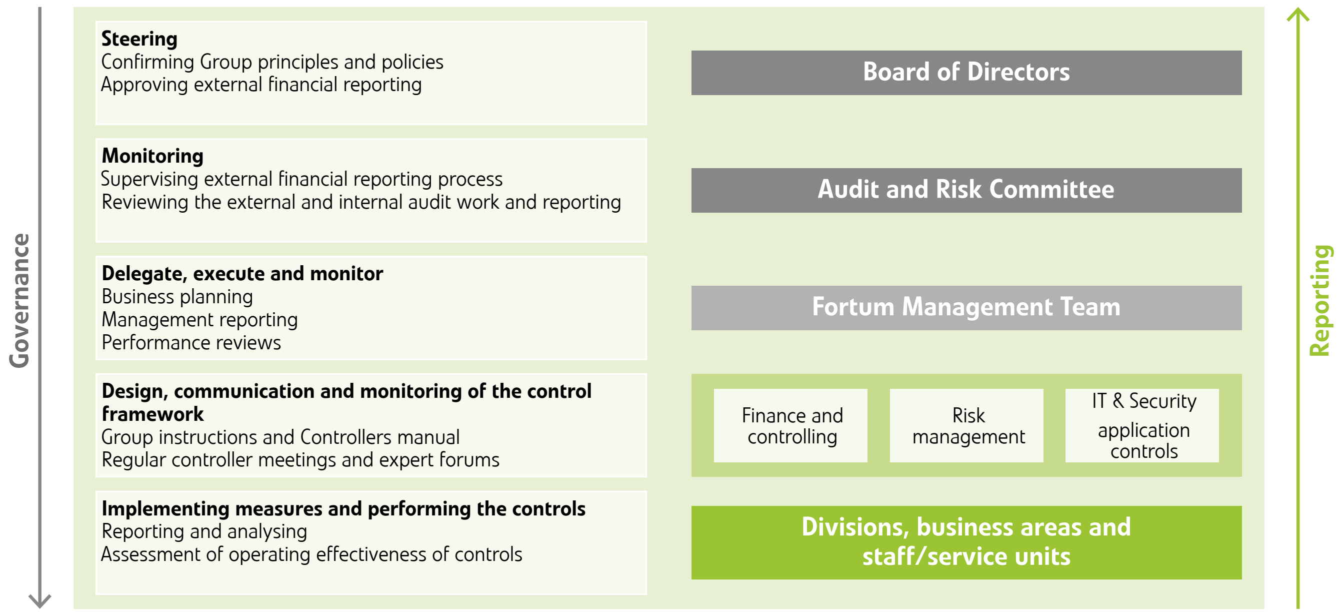
INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO FINANCIAL REPORTING

The internal control and risk management systems relating to financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and to ensure compliance with applicable laws and regulations.

Fortum's Board of Directors approves the Group Risk Policy, which sets the Group's objective, principles and division of responsibilities for risk management activities also for the financial reporting process. The financial reporting process is embedded in the internal control framework, and the

[1] *As of 1 February 2012 eight members when Maria Paatero-Kaarnakari leaves the Fortum Management Team and starts as Senior Vice President, Fortum Asia in India.*

FINANCIAL REPORTING FRAMEWORK IN FORTUM



process level internal control structure has been created by using a risk-based approach. Fortum's internal control framework includes the main elements from the framework introduced by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

Control environment

Fortum's internal control framework supports the execution of the strategy and ensures regulatory compliance and reliability of the financial reporting. Fortum Code of Conduct, approved by the Board of Directors, is based on Fortum's shared values and it describes the principles for business conduct. The internal control framework consists of group-level policies and processes as well as business and support process-level controls.

The Audit and Risk Committee, appointed by the Board of Directors, oversees the financial reporting process and monitors the efficiency of the internal controls and risk management within the Group. Corporate Risk Management is responsible for reporting risk exposures and maintaining the company's risk management framework.

Corporate Accounting and Control unit headed by the Corporate Controller is responsible for the overall control structure of the financial performance management process. The control process is based on Group policies, instructions and guidelines relating to financial reporting. Controllers Manual contains financial reporting instructions. This manual is regularly reviewed and updated. During 2011 the position of Head of process development has been established to support the finance organisation in ensuring a uniform way of working and monitoring the performance of the processes within the Finance function.

Fortum's organisation is decentralised and a substantial degree of authority and responsibility is delegated to the divisions in form of control responsibilities. Some areas like commodity market risk control is more centralised.

Risk assessment

Risks related to financial reporting are identified and analysed annually as as part of the Fortum risk management process. Risks are reported in connection with the planning process and the follow-up of actions and improvements is integrated to operational management. The control risk assessment has been the basis for creating the process-level internal control framework and the same applies to the control points to prevent errors in the financial reporting process. This assessment includes risks related to fraud and irregularities, as well as to risks of loss or misappropriation of assets. The results of the control risk assessment and the process level controls are reported to the Audit and Risk Committee.

Control activities

Control activities are applied in the business processes and, from a financial reporting perspective, they ensure that potential errors or deviations are prevented, discovered and corrected. In financial reporting, the Controllers Manual sets the standards.

The Corporate Accounting and Control unit defines the design of the control points, and internal controls covering the end-to-end financial reporting process. Responsibilities are assigned for the controls and also for ensuring their operating effectiveness. Fortum's processes include controls regarding the initiation, approval, recording and accounting of financial transactions. Standardised way of working is also ensured by Fortum's financial shared service center, which performs controls for the recognition, measurement and disclosure of financial information. The financial shared service center was awarded the ISO 9001:2008 certificate in December 2011.

All divisions have their own finance function ensuring that relevant analysises of the business performance are done such as volumes, revenues, costs, working capital, asset base and investments. These analysis are reviewed in different levels of the Group and ultimately by the Board of Directors.

Information and communication

The Controller's manual includes Fortum Accounting manual, Investment manual and reporting instructions and other policies relating to the financial reporting. It is stored on intranet site and is accessible to all involved in the financial reporting process. Monthly Core Controllers' meetings, headed by the Corporate Controller, are steering the development projects within Finance and receiving updates from different expert forums within Finance. Regular Accounting Network Forum meetings are used to inform the finance community about upcoming changes in IFRS, new accounting policies and other changes.

Follow-up

Financial results are followed up in the monthly reporting and reviewed monthly by the Fortum Management Team. Quarterly Performance Review meetings with the Fortum Management Team and division management are embedded in the Fortum Performance Management process. The financial performance is ultimately reviewed by the Audit and Risk Committee and the Board of Directors.

As part of the Fortum internal control framework, all divisions are assessing the effectiveness of the controls they are responsible for. Division- and corporate-level controller teams are responsible for assessing the financial reporting process and the Corporate Risk Management reviews these regularly. Internal control design and operating effectiveness are also assessed by Corporate Internal Audit. The audits are conducted based on the audit plan adopted by the Audit and Risk Committee. Audit results, including corrective actions and status, are regularly reported to the Audit and Risk Committee.

FORTUM PERFORMANCE MANAGEMENT PROCESS

Remuneration

The Finnish Corporate Governance Code 2010 requires that Fortum Corporation issues a remuneration statement regarding the salaries and other remuneration paid by company. Furthermore, in September 2009, the Cabinet Committee on Economic Policy, representing the State owner, issued guidelines on remuneration and pension benefits of management in companies with State ownership. Fortum takes into account both the Code and the guidelines in its remuneration.

Remuneration at Fortum is directed by the Group's remuneration principles and Fortum's general remuneration and benefits practices. When determining remuneration, the company's financial performance and external market data, particularly the remuneration for similar positions among peer companies, are taken into consideration. The Board of Directors approves the remuneration principles at the Group level and decides on the bonus targets and the remuneration of senior management. Remuneration of the members of the Board of Directors is decided by the Annual General Meeting of Fortum Corporation.

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, values and structural changes. The system ensures that the performance targets of individual employees align with the targets of the division and the Group. All Fortum employees, with the exception of certain personnel groups in Poland and Russia, are covered by the bonus system.

The Board of Directors decides on the bonus criteria for senior management (the President and CEO and other members of the Fortum Management Team). The amount of each senior executive's bonus is dependent on the Group's financial performance and on their own success in reaching personal targets. The maximum bonus for senior management is 40% of the executive's annual salary including fringe benefits.

The bonuses of the division heads, who are all members of the Fortum Management team, are determined on the basis of the division's performance and the Group's financial performance. During the annual performance discussion held at the beginning of the year, the division head and his/her superior 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.

In 2011, the bonuses paid to the Fortum Management Team (FMT), including the President and CEO, amounted to EUR 1,087,190 (2010: 819,253), which is 0.29% (2010: 0.23%) of the total remuneration paid by the Fortum Group.

Long-term incentives

The purpose of Fortum's long-term incentive system, i.e. share bonus system, is to support the achievement of the Group's long-term targets by committing key individuals. The Board of Directors chooses the Fortum management members entitled to participate in the share bonus system. The Board of Directors can also exclude individual participants from the system. Participation in the system precludes the individual from being a member in the Fortum Personnel Fund.

Fortum's share bonus system is divided into six-year share plans, within which participants have the opportunity to earn company shares. A new plan commences yearly, if the Board of Directors so decides.

Each share plan begins with a three-calendar-year period, during which participants may earn share rights if the earnings criteria set by the Board of

COMPENSATION FOR THE PRESIDENT AND CEO AND THE FORTUM MANAGEMENT TEAM

EUR	Salaries and fringe benefits 2011	Salaries and fringe benefits 2010	Performance bonuses 2011	Performance bonuses 2010	Total 2011	Total 2010
President and CEO [1]	952,323	911,545	337,696	237,510	1,290,019	1,149,055
Other Management Team members [1]	2,799,609	2,481,935	749,494	581,743	3,549,103	3,063,678

[1] *Additionally, the President and CEO had a calculatory gross income of EUR 886,467 from share deliveries of share plans (2005–2010 and 2008–2012) during spring 2011. The corresponding aggregated figure for the other members of the Fortum Management Team was EUR 1,590,643. The shares from share plan 2008–2012 cannot be transferred or sold before the end of the two-year lock-up period.*

REMUNERATION AND TERMS OF EMPLOYMENT OF PRESIDENT AND CEO TAPIO KUULA

Salary and fringe benefits	Base salary EUR 74,283/month. Additionally free car benefit and mobile phone benefit as fringe benefits.
Short-term incentive system (bonus)	The bonus can be earned annually based on the criteria approved by the Board of Directors. The maximum level is 40% of the annual salary including fringe benefits. Annual salary = 12 times the salary paid in December of the year in question.
Long-term incentive system (share bonus)	According to Fortum management's current share bonus system. The maximum value of shares (before taxation) cannot exceed the annual salary of the President and CEO.
Pension	Retirement age is 63. The President and CEO's supplementary pension is a defined contribution pension plan, and the annual contribution is 25% of the annual salary. The annual salary consists of the base salary, fringe benefits and bonus. If the President and CEO's contract is terminated before retirement age, he/she is entitled to retain the funds that have accrued in the pension fund.
Termination of contract	The notice period for both parties is six months. If the company terminates the contract, the President and CEO is entitled to the salary of the notice period and to severance pay equal to 18 months' salary.

SHARE RIGHTS DELIVERED OR TO BE DELIVERED TO THE MANAGEMENT

Name	2011	2012
Tapio Kuula	19,663	17,171
Anne Brunila	2,524	3,983
Alexander Chuvaev [1]	12,960	18,749
Mikael Frisk	5,285	4,576
Timo Karttinen	6,053	5,213
Juha Laaksonen	6,620	6,840
Per Langer	4,273	3,966
Maria Paatero-Kaarnakari	3,118	2,856
Matti Ruotsala	6,219	7,283

[1] *Share rights will be paid in cash instead of shares after two years due to local legislation.*

SHARE BONUS SYSTEMS

Plans	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
2006–2011	1	2	3	4	5	6					
2007–2012		1	2	3	4	5	6				
2008–2012			1	2	3	4	5				
2009–2013				1	2	3	4	5			
2010–2015					1	2	3	4	5	6	
2011–2016						1	2	3	4	5	6

year	Earning period
year	Lock-up period
	Share delivery

Directors are fulfilled. After the earning period has ended and the relevant taxes and other employment-related expenses have been deducted from the gross value of the earned share rights, participants are paid the net balance of the earned rights in the form of shares. The earning period is followed by a subsequent lock-up period, during which participants cannot transfer or dispose of the shares. If the value of the shares decrease or increase during the lock-up period, the potential loss or gain is carried by the participants. The maximum value of shares (before taxation) to be delivered to a participant after the earning period cannot exceed the participant's one-year salary.

Fortum's current long-term incentive system fulfils the recommendations of State-owned companies and the Corporate Governance Code 2010 for listed companies.

Read more about the incentive plans in the Consolidated financial statements, Note 31 on page 85.

Pensions

Fortum's Finnish executives participate in the Finnish TyEL pension system, which provides for a retirement benefit based on years of service and earnings and in accordance with the prescribed statutory system. Under the Finnish pension system, earnings are defined as base pay, annual bonuses and taxable fringe benefits, but gains realised from the share bonus system are not included in that definition. Finnish pension legislation offers a flexible retirement from age 63 to age 68 without full-pension restrictions.

Fortum's executives outside Finland participate in pension systems based on collective agreements and market practise in their local countries.

Retirement age for Fortum's President and CEO is 63 and for other members of the Fortum Management Team 60–63. For the President and CEO and for some other executives, the maximum pension can be 60% of the salary, with the pension insured by an insurance company, and for some executives the maximum is 66% of the salary, with the pension insured and paid by Fortum's Pension Fund. The Fortum Pension Fund was closed in 1991.

Remuneration of Supervisory Board

In Fortum's Annual General Meeting 2011, the State of Finland and the Finnish Shareholders Association (Osakesäästäjien keskusliitto) proposed to dissolve the Supervisory Board and accordingly to amend the Articles of Association of Fortum. The proposal was accepted and the changes to the Articles of Association entered into force on 4 April 2011. The table below presents the total compensation of the Supervisory Board for the period 1 January to 4 April 2011.

Remuneration of the Board of Directors

Every member of the Board of Directors receives a fixed monthly fee and a meeting fee. The meeting fee is also paid for committee meetings and is paid in double to a member who lives outside Finland in Europe and triple to a member who lives outside Europe. The members are entitled to travel expense compensation in accordance with the company's travel policy.

Members of the Board of Directors are not paid a salary by Fortum and they are not given the opportunity to participate in Fortum's bonus or share bonus schemes, nor does Fortum have a pension plan that they can opt to take part in. The compensation is not tied to the sustainability performance of the Group.

The Annual General Meeting on 31 March 2011 confirmed the following compensation for the members of the Board of Directors:

FEES OF THE BOARD OF DIRECTORS

EUR/year	2011	2010
Chairman	66,000	66,000
Deputy Chairman	49,200	49,200
Members	35,400	35,400
Meeting fee	600	600

TOTAL COMPENSATION FOR SUPERVISORY BOARD SERVICE

EUR	1 Jan – 4 April 2011[1)]	2010
Markku Laukkanen, Chairman	3,200	13,000
Sanna Perkiö, Deputy Chairman	2,000	8,000
Martti Alakoski	1,700	7,000
Tarja Filatov	1,700	6,800
Sampsa Kataja	1,700	7,000
Kimmo Kiljunen	1,700	7,200
Katri Komi	1,700	6,800
Panu Laturi	1,700	7,200
Juha Mieto	1,700	7,000
Helena Pesola	1,700	7,200
Jukka Mäkelä [2)]	N/A	5,800

1) *All members were present in the meeting held in February 2011.*

2) *Member until 19 October 2010.*

TOTAL COMPENSATION FOR BOARD OF DIRECTORS

EUR	Board service in 2011 [1]	Total compensation in 2011	Board service in 2010 [1]	Total compensation in 2010
Sari Baldauf, Chairman [2]	1 Jan.–31 Dec.	70,261	1 Jan.–31 Dec.	58,800
Christian Ramm-Schmidt, Deputy Chairman [3]	1 Jan.–31 Dec.	54,800	1 Jan.–31 Dec.	45,600
Esko Aho	1 Jan.–31 Dec.	43,800	1 Jan.–31 Dec.	45,000
Minoo Akhtarzand	31 March–31 Dec.	34,478	N/A	N/A
Heinz-Werner Binzel	31 March–31 Dec.	37,478	N/A	N/A
Ilona Ervasti-Vaintola	1 Jan.–31 Dec.	43,800	1 Jan.–31 Dec.	45,000
Joshua Larson	1 Jan.–31 Dec.	56,400	25 March–31 Dec.	46,391
Matti Lehti, former Chairman	1 Jan.–31 March	19,500	1 Jan.–31 Dec.	75,600
Birgitta Johansson-Hedberg	1 Jan.–31 March	11,250	1 Jan.–31 Dec.	52,800

[1] *Meeting attendance are presented on page 118.*
[2] *Chairman from 31 March 2011, before that Deputy Chairman.*
[3] *Deputy Chairman from 31 March 2011.*

Board of Directors

Sari Baldauf

- **Chairman, born 1955, MSc, Business Administration**
- **Chairman of the Nomination and Remuneration Committee**

Main occupation:

Non-executive Director

Primary work experience:

- Executive Vice President and General Manager of Nokia Networks and Member of Group Executive Board 1994-2005, Nokia Corporation

Key positions of trust:

- Member of the Board; F-Secure Corporation, Daimler AG, Hewlett-Packard Company
- Member of the Board, Finnish Business and Policy Forum EVA
- Member of the Board , Finland's Children and Youth Foundation, Tukikummit Foundation, John Nurminen Foundation
- Chairman of Savonlinna Opera Festival
- Vice Chairman, Sanoma Oyj (2003-2009)
- Member of the Board, Capman Oyj (2008–2011), YIT Oyj (2006-2008)

Independent member of Fortum's Board of Directors since 2009.

Fortum shareholding on 31 Dec. 2011: 2,300 (31 Dec. 2010: 2,300)

Christian Ramm-Schmidt

- **Deputy chairman, born 1946, BSc (Econ)**
- **Chairman of the Audit and Risk Committee**

Main occupation:

Senior Partner of Merasco Capital Ltd.

Primary work experience:

- President of Baltic Beverages Holding Ab (BBH)
- Chairman of the Board of Baltika Breweries, Russia
- President of Fazer Biscuits Ltd., Fazer Chocolates Ltd., Fazer Confectionery Group Ltd.
- Director, ISS ServiSystems Oy
- Director, Rank Xerox Oy

Key positions of trust:

- Member of the Board of Boardman Oy and Reima Oy

Independent member of Fortum's Board of Directors since 2006.

Fortum shareholding on 31 Dec. 2011:

2,250 (31 Dec. 2010: 2,250)

Esko Aho

- **Born 1954, Master of Political Sciences**
- **Member of the Nomination and Remuneration Committee**

Main occupation:

Executive Vice President, Corporate Relations and Responsibility, Nokia Corporation. Nokia Leadership Team Member

Primary work experience:

- President of Sitra, the Finnish Innovation Fund
- Prime Minister of Finland
- Member of Parliament
- Leader of the Centre Party
- Lecturer at Harvard, USA

Key positions of trust:

- Vice Chairman of the Board, Technology Industries of Finland
- Vice Chair of ICC World Finland and member of ICC World Council (2009)
- Board Member of Technology Academy, Finland (2009)
- Member of the Board of Directors of Russian Venture Company (2002–2010)

Independent member of Fortum's Board of Directors since 2006.

Fortum shareholding on 31 Dec. 2011: 0 (31 Dec. 2010: 0)

Minoo Akhtarzand

- **Born 1956, MSc, Electro Technical engineering**
- **Member of the Nomination and Remuneration Committee**

Main occupation:

Governor in the County of Jönköping

Primary work experience:

- Director-General, Swedish National Rail Administration
- Director, Regional Labour Agency
- Several senior executive positions, Vattenfall AB
- Positions in Stockholm Energi

Key positions of trust:

- Chairman, The National Society for Road Safety in the County of Jönköping
- Board Member of The Swedish Export Credit Agency, Sveriges Radio (2007-2010), Vattenfall Bränsle AB (2004-2006), Vattenfall Vattenkraft AB (2003-2006, Vattenfall Business service AB (2003-2006), Teracom AB (Telecommunication and IT) (2001-2007)
- Vice Chairman, EIM (European Infrastructure Managers) (2009-2010), Södertörn university (1997-2003)
- Chairman of the Board, Västerbergslagens Energi AB (2000-2004)

Independent member of Fortum's Board of Directors since 2011.

Fortum shareholding 31 Dec. 2011: 0 (31 Dec. 2010: N/A)

Heinz-Werner Binzel

- **Born 1954, Economics and electrical engineering degree**
- **Member of the Audit and Risk Committee**

Main occupation:

Independent consultant

Primary work experience:

- Board member for procurement and sale of electricity, gas, and water, RWE Energy AG
- Board member as CFO and from 2002 onwards as CEO, RWE SOLUTIONS AG
- Several senior executive positions in Germany and the USA, NUKEM GMBH

Key positions of trust:

- Member of Supervisory board, Chairman of Audit Committee, TÜV Rheinland Holding AG
- Chairman of Supervisory board, RWE Solutions AG (2003-2006)

Independent member of Fortum's Board of Directors since 2011.

Fortum shareholding 31 Dec. 2011: 1,000 (31 Dec. 2010: N/A)

Ilona Ervasti-Vaintola

- **Born 1951, LL.M., Trained on the bench**
- **Member of the Nomination and Remuneration Committee**

Main occupation:

Non-executive Director

Primary work experience:

- Group Chief Counsel, Member of the Group Executive Committee, Sampo plc (2001-2011)
- Chief Counsel and member of the Board, Mandatum Bank plc (1998-2001)
- Director, Partner, Mandatum & Co Ltd (1992-1998)
- Head of Financial Law Department, Legal counsel, Union Bank of Finland Ltd (1982-1992)

Key positions of trust:

- Member of the Board, Finnish Literature Society (2005-2011)
- Member of the Board, Fiskars Corporation (2004-2010)
- Member of the Board, OMX Nordic Exchanges Group Ltd (2003-2008), Stockholmsbörsen AB (2003-2007)
- Member (2002-2005) and Chairman, Legal Committee of the Central Chamber of Commerce of Finland (2005-2010)

Member of Fortum's Board of Directors since 2008, independent since 1 November 2011.

Fortum shareholding on 31 Dec. 2011: 4,000 (31 Dec. 2010: 4,000)

Joshua Larson

- **Born 1966, Master of International Affairs, Bachelor in Russian language**
- **Member of the Audit and Risk Committee**

Main occupation:

Private investor and consultant

Primary work experience:

- CEO and Senior Managing Director, IFC Alemar
- Managing Director, The Carlyle Group, Moscow
- Executive Director, Head of Russian Operations, Morgan Stanley, Moscow
- Executive Director, Co-Head of Russian Business, Goldman Sachs International, London and Moscow

Key positions of trust:

- Member of the Board of Directors, Kora Group (2006-2007)
- Member of the Board of Directors, Bank Alemar, IFC Alemar and Alemar Asset Management (2006-2008)
- Member of the Board of Directors, OAO Apteka Holdings (2004-2006)
- Member of the Board of Directors, OAO Cherkizovo Agro-Industrial Complex (2002-2004)

Independent member of Fortum's Board of Directors since 2010.

Fortum shareholding on 31 Dec. 2011: 0 (31 Dec. 2010: 0)

Group Management

Tapio Kuula

- **President and CEO since 2009**
- **Born 1957. MSc (Eng), MSc (Econ)**
- **Member of the Management Team since 1997**
- **Employed by Fortum since 1996**

Previous positions:

- Fortum Corporation, Senior Vice President, 2005
- Fortum Power and Heat Oy, President, 2000
- Power and Heat Sector, Fortum Oyj, President 2000
- Fortum Power and Heat Oy, Executive Vice President, 1999
- Imatran Voima Oy, Executive Vice President, Member of the Board, Member of the Management Team, 1997

Key positions of trust:

- Varma Mutual Pension Insurance Company, Chairman of the Supervisory Board
- Lappeenranta University of Technology, Member of the Board
- East office of Finnish Industries Oy, Vice Chairman
- Northern Dimension Business Council, Co-chairman

Fortum shareholding on 31 Dec. 2011: 101,232 (31 Dec. 2010: 81,569)

Anne Brunila

- **Executive Vice President, Corporate Relations and Strategy [1], since 2009**
- **Born 1957. DSc (Econ)**
- **Member of the Management Team since 2009**
- **Employed by Fortum since 2009**

Previous positions:

- Finnish Forest Industries Federation, President and CEO, 2006
- Ministry of Finance, several positions, 2002
- The Bank of Finland, Advisor to the Board, 2002
- European Commission, Advisor, 2000
- The Bank of Finland, several positions, 1992

Key positions of trust:

- KONE Oyj, Member of the Board
- Sampo Plc, Member of the Board
- Aalto University Foundation, Member of the Board
- The Research Institute of Finnish Economy ETLA, Member of the Board
- Finnish Business and Policy Forum, EVA, Member of the Board
- World Business Council of Sustainable Development, Council member
- Finnish Energy Industries, Member of the Board

Fortum shareholding on 31 Dec. 2011: 2,524 (31 Dec. 2010: 0)

Aleksander Chuvaev

- **Executive Vice President, Russia Division, since 2009; General Director of OAO Fortum; Country responsible for Russia**
- **Born 1960. MSc (Eng)**
- **Member of the Management Team since 2009**
- **Employed by Fortum since 2009**

Previous positions:

- GE Oil & Gas, Regional Executive Director, Russia and CIS, 2009
- SUEK, Investment Development Director, Russia 2008
- JSC Power Machines, Managing Director, Russia, 2006–2008
- GE Oil & Gas, Regional General Manager, Russia, 2006
- JSC OMZ, Chief Operations Officer, Russia, 2005
- GE, various positions in the USA and Canada, 1999
- Solar Turbines Europe S.A., various positions in Europe and the USA, 1991

Fortum shareholding on 31 Dec. 2011: 0 (31 Dec. 2010: 0)

Mikael Frisk

- **Senior Vice President, Corporate Human Resources, since 2001; responsible for Corporate IT & Business Process Management [2]**
- **Born 1961. MSc (Econ)**
- **Member of the Management Team since 2001**
- **Employed by Fortum since 2001**

Previous positions:

- Nokia Mobile Phones, Vice President, HR Global Functions, 1998
- Nokia-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:

- Staffpoint Oy, Member of the Board

Fortum shareholding on 31 Dec. 2011: 28,473 (31 Dec. 2010: 30,000)

[1] *The name of the function was changed 1 January 2012 from Corporate Relations and Sustainability to Corporate Relations and Strategy*

[2] *as of 1 January 2012.*

Timo Karttinen

- **Executive Vice President, Electricity Solutions and Distribution Division since 2009; Country responsible for Finland and Norway**
- **Born 1965. MSc (Eng)**
- **Member of the Management Team since 2004**
- **Employed by Fortum since 1991**

Previous positions:

- Fortum Corporation, Senior Vice President, Corporate Development, 2004
- Fortum Power and Heat Oy, Business Unit Head, Portfolio Management and Trading, 2000
- Fortum Power and Heat Oy, Vice President, Electricity Procurement and Trading, 1999
- Imatran Voima Oy, Vice President, Electricity Procurement, 1997

Key positions of trust:

- Gasum Oy, Member of the Supervisory Board
- Confederation of Finnish Industries, Member of the Trade Policy Committee and Energy Committee

Fortum shareholding on 31 Dec. 2011: 55,015 (31 Dec. 2010: 48,962)

Juha Laaksonen

- **Executive Vice President and Chief Financial Officer since 2000**
- **Born 1952. BSc (Econ)**
- **Member of the Management Team since 2000**
- **Employed by Fortum since 1979**

Previous positions:

- Fortum Corporation, Corporate Vice President, M&A, 2000
- Fortum Oil & Gas Oy, Executive Vice President, Finance & Planning, 1999
- Neste Oyj, CFO 1998
- Neste Oy, Corporate Controller 1979

Key positions of trust:

- Sato Oyj, Chairman of the Board
- Kemira Oyj, Member of the Board
- Kemijoki Oy, Member of the Supervisory Board
- The Fortum Art Foundation, Chairman of the Board
- The Association of Finnish Fine Arts Foundations, Deputy Chairman of the Board

Fortum shareholding on 31 Dec. 2011: 40,861 (31 Dec. 2010: 34,241)

Per Langer

- **Executive Vice President, Heat Division since 2009; Country responsible for Sweden, Poland and the Baltics; responsible for Corporate R&D and Innovation[3)]**
- **Born 1969. MSc (Econ)**
- **Member of the Management Team since 2009**
- **Employed by Fortum since 1999**

Previous positions:

- Fortum Power and Heat Oy, President of Heat, 2007
- Fortum Power and Heat Oy, President of Portfolio Management and Trading, 2004
- Fortum Corporation, various managerial positions, 1999
- Gullspång Kraft, various managerial positions 1997

Key positions of trust:

- AS Fortum Tartu, Supervisory Board Chairman

Fortum shareholding on 31 Dec. 2011: 12,751 (31 Dec. 2010: 8,478)

[3)] *as of 1 January 2012.*

Maria Paatero-Kaarnakari [4)]

- **Senior Vice President, Corporate Strategy and R&D, 2007–2011**
- **Born 1955. MSc (Eng)**
- **Member of the Management Team since 2007**
- **Employed by Fortum since 1985**

Previous positions:

- Fortum Corporation, Senior Vice President, Corporate Strategy, 2007
- Fortum Corporation, Vice President, Corporate Development, 2000
- Neste Oyj, Manager, Strategic Planning 1998
- Neste Polyester Inc, USA, Business Development Manager, 1997
- Neste Group, various managerial positions 1985

Fortum shareholding on 31 Dec. 2011: 6,201 (31 Dec. 2010: 5,083)

[4)] *Maria Paatero-Kaarnakari was appointed as Senior Vice President, Fortum Asia, as of 1 February 2012. With this change, she left Fortum Management Team.*

Matti Ruotsala

- **Executive Vice President, Power Division since 2009**
- **Born 1956. MSc (Eng)**
- **Member of the Management Team since 2009**
- **Employed by Fortum since 2007**

Previous positions:

- Fortum Power and Heat Oy, President of Generation, 2007
- Valtra Ltd, Managing Director, 2005
- AGCO Corporation, Vice President, 2005
- Konecranes Plc, Chief Operating Officer (COO) and Deputy to CEO, 2001
- Konecranes Plc and Kone Corporation, several senior and managerial positions, 1982

Key positions of trust:

- Kemijoki Oy, Chairman of the Board
- PKC Group Oyj, Chairman of the Board
- Teollisuuden Voima Oyj, Chairman of the Board
- Halton Group Ltd, Member of the Board

Fortum shareholding on 31 Dec. 2011: 6,219 (31 Dec. 2010: 0)

Financial information in 2012

Fortum publishes three interim reports in 2012:
- Q1 on 26 April 2012
- Q2 on 19 July 2012
- Q3 on 19 October 2012

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.

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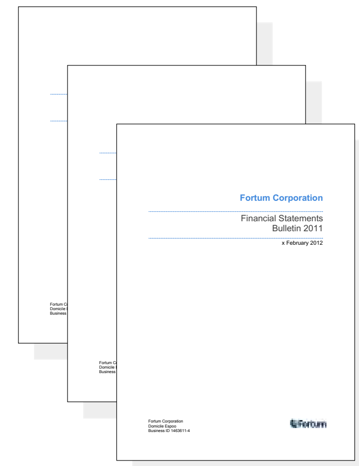
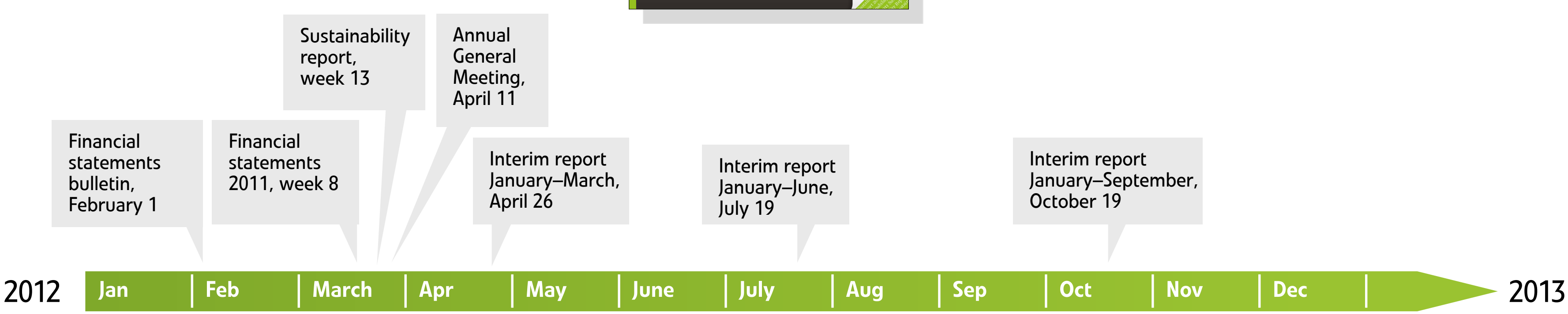




Investor information

Annual General Meeting
The Annual General Meeting of Fortum Corporation will be held on Wednesday, 11 April 2012, starting at 14:00 EET at Finlandia Hall, address: Mannerheimintie 13 e, Helsinki, Finland. The reception of shareholders who have registered for the meeting will commence at 13:00 EET.

Payment of dividends
The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a dividend of EUR 1.00 per share for 2011, totalling EUR 888 million based on the number of registered shares as of 31 January 2012. The possible dividend-related dates planned for 2012 are:

- Ex-dividend date 12 April 2012,
- Record date for dividend payment 16 April 2012 and
- Dividend payment date 23 April 2012.

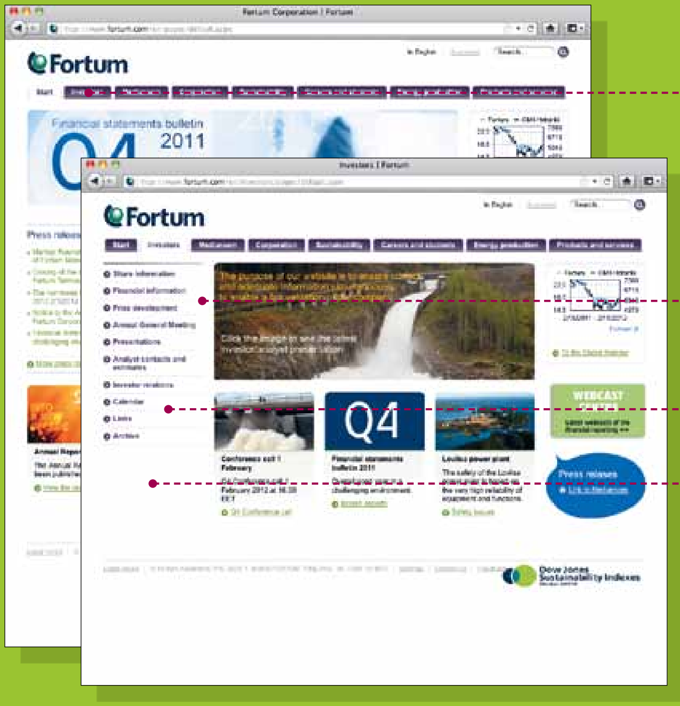
Fortum share basics
Listed on NASDAQ OMX Helsinki
Trading ticker: FUM1V Number of shares, 31 January 2012: 888,367,045.
Sector: Utilities

Ordering financial information
Financial documents can be obtained from Fortum Corporation, Mail Room, POB 1, FI-00048, FORTUM, Finland, tel. +358 (0)10 452 9151, e-mail: juha.ahonen@partners.fortum.com
Investor information is available online at www.fortum.com/investors

Investor relations at Fortum
Sophie Jolly, Vice President, Investor Relations
tel. +358 (0) 10 453 2552
fax +358 (0) 10 452 4327
e-mail: sophie.jolly@fortum.com

Rauno Tiihonen, Manager, Investor Relations
tel. +358 (0) 10 453 6150
fax +358 (0) 10 452 4327
e-mail: rauno.tiihonen@fortum.com

Investor information online



Investor information

Annual Reports and interim reports including webcasts

Calendar with coming events

Glossary with energy units, some industry-specific and financial terminology

Fortum's 2010 Annual Report package (consisting of Review of Operations, Financials and Sustainability Report) was placed 4th in the global annual report ranking by e.com's Report Watch.

ANNUAL REPORT 2011

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Printing: Lönnberg Oy 2012

Year 2011 was exceptional in many respects. The Fukushima accident in Japan and the ongoing financial crisis in Europe as well as the unstable situation in the Middle East all have had implications to the energy sector, which is becoming more and more exposed to global phenomena. Despite all this, Fortum succeeded in reaching operational enhancements and the company continued investments in order to support its long-term goals.

Fortum's consolidated financial statements for 2011, prepared in accordance with IFRS, give information on the performance and financial position of Fortum. They were approved by the Fortum's Board of Directors on 31 January 2012. Included in this report is also the Corporate governance statement presenting details of the governance structure of Fortum.

Fortum

Fortum Corporation
Keilaniementie 1, Espoo | POB 1 | 00048 FORTUM | FINLAND
tel. +358 (0) 10 4511 | fax +358 (0) 10 45 24447 | www.fortum.com
Domicile Espoo, Business ID 1463611–4