



# Fortum Corporation

## Financial Statements Bulletin January-December 2017

2 February 2018

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Figures in brackets refer to the comparison period, i.e. the same period last year, unless otherwise stated.

## Strong results and efficient strategy implementation - Proposed dividend unchanged at EUR 1.10

### October-December 2017

- Comparable EBITDA was EUR 424 (298) million, +42%
- Comparable operating profit was EUR 295 (188) million, +57%
- Operating profit was EUR 315 (202) million
- Earnings per share was EUR 0.28 (0.16), of which EUR 0.01 (0.01) related to items affecting comparability
- Cash flow from operating activities totalled EUR 295 (150) million

### January-December 2017

- Comparable EBITDA was EUR 1,275 (1,015) million, +26%
- Comparable operating profit was EUR 811 (644) million, +26%
- Operating profit was EUR 1,158 (633) million
- Earnings per share was EUR 0.98 (0.56), of which EUR -0.14 related to a Swedish income tax case and EUR 0.38 (-0.02) related to items affecting comparability, including sales gains of approximately EUR 0.36 related to the Hafslund transaction
- Cash flow from operating activities totalled EUR 993 (621) million
- City Solutions division divided into City Solutions and Consumer Solutions to support strategy implementation
- Operating profit target level (EBIT) of RUB 18.2 billion for the Russia segment was reached in the first quarter of 2017
- Fortum and City of Oslo concluded the Hafslund ownership restructuring
- Fortum signed the transaction agreement with E.ON regarding its 46.65% ownership in Uniper. Totally 46.93% of the shares received during the initial acceptance period
- Fortum's Board of Directors proposes a dividend of EUR 1.10 per share (1.10)

### Summary of outlook

- Fortum expects the annual electricity demand in the Nordic countries to continue to grow by approximately 0.5% on average
- Generation segment's Nordic generation hedges: approximately 70% hedged at EUR 28 per MWh for 2018 and approximately 40% at EUR 25 per MWh for 2019

### Key financial ratios

	2017	2016
Return on capital employed, %	7.1	4.0
Comparable net debt/EBITDA	0.8	0.0

## Key figures

EUR million or as indicated	IV/17	IV/16	2017	2016
Sales	1,432	1,143	4,520	3,632
Comparable EBITDA	424	298	1,275	1,015
Comparable operating profit	295	188	811	644
Operating profit	315	202	1,158	633
Share of profits of associates and joint ventures	34	15	148	131
Profit before income taxes	300	184	1,111	595
Earnings per share, EUR	0.28	0.16	0.98	0.56
Net cash from operating activities	295	150	993	621
Shareholders' equity per share, EUR			14.69	15.15
Interest-bearing net debt (at end of period)			988	-48

## Fortum's President and CEO Pekka Lundmark:

"We are satisfied with the progress of our strategy implementation during the year. Following the earlier Ekokem and Hafslund transactions, we announced the bid for Uniper towards the end of 2017. By investing in Uniper, Fortum continues the capital redeployment to enable a more efficient use of our balance sheet. The offer period commenced in November. At the end of the initial acceptance period in mid-January 2018, 46.93% of Uniper's shares had been tendered to our offer, including E.ON's 46.65% shareholding. Uniper shareholders who have not yet accepted our offer still have a chance to do so within the additional acceptance period.

Uniper's and Fortum's businesses complement each other well. Together Fortum and Uniper have a good strategic mix of assets – both clean and secure – as well as the expertise required to successfully and affordably drive Europe's transition towards a low-carbon energy system. We aim to take an active role in driving European energy transition. We see plenty of opportunities for co-operation with Uniper to add value for all stakeholders, and we have entered into talks with Uniper to formalise the relationship between our companies after the transaction is finalised. We truly see our investment as a win-win for all involved.

The Hafslund restructuring was concluded in the fourth quarter and the new business structure is now in place. Together with our new colleagues from Hafslund, we have updated the strategies for both our Consumer Solutions and City Solutions divisions. We have now set the path forward and will be working together on implementing the strategy. We target annual synergies of EUR 15-20 million by the end of 2020.

In line with our strategy, we are not only focusing on taking part in the European power sector consolidation, we are also investing in new renewable generation and targeting a gigawatt-scale portfolio of wind and solar power. Last month we commissioned Russia's first industrial wind power site with a capacity of 35 MW. In addition, we have recently started the implementation of other wind power plants in the Nordics and in Russia, invested in solar power in Russia, and commissioned our largest solar power plant in India.

Our performance improvement in the fourth quarter was broad-based, with comparable operating profit increasing in all operative segments. The Generation, City Solutions and Russia segments continued to perform well, while the Consumer Solutions segment continues to be under pressure due to the tight competitive situation. The acquisitions of Ekokem and Hafslund are already impacting our results positively, further strengthened by our continued Fortum-wide focus on efficiency. We have now reached the targeted EUR 100 million savings in fixed costs announced in 2016. The cost savings have enabled us to invest in new ventures for the future. Going forward we will continue to focus on cost efficiency and investment prioritisation.

Sustainability and safety continue to be very important for us at Fortum. 2017 was a challenging year in terms of occupational safety. We did not reach our targets for lost workday injury frequency, especially for contractors. This was a clear disappointment, even though we succeeded in reducing the number of severe accidents to only one. We continue to be committed to keeping our promise to provide a safe workplace for all. In 2017, our CO<sub>2</sub> emissions decreased slightly. Our specific emissions remained at the same level as the previous year and continue to be at a low level compared to other European power producers.

As the strategy implementation and capital redeployment continues, our dividend payment capability will be further strengthened. Fortum's Board of Directors is proposing an unchanged dividend of EUR 1.10 per share for the calendar year 2017. Our ambition is to pay a stable, sustainable and over time increasing dividend now and in the future, and given the prevailing market conditions, our goal is to avoid a temporary dividend cut.

I would like to thank all our employees for the excellent work and true commitment during the year and our customers and all other stakeholders for the continued trust in us.“

## Uniper investment

In September 2017, Fortum announced it had signed a transaction agreement with E.ON under which E.ON had the right to decide to tender its 46.65% shareholding in Uniper SE into Fortum's public takeover offer. In November, Fortum launched a voluntary public takeover offer to all Uniper shareholders at a total value of EUR 22 per share implying a premium of 36% to the price prior to intense market speculation on a potential transaction at the end of May. The offer is subject to competition and regulatory approvals. Already in October 2017, Fortum received approval from the US competition authorities. Fortum expects to finalise the transaction in mid-2018.

The investment in Uniper delivers on Fortum's previously announced capital redeployment strategy and investment criteria. Uniper's businesses are well aligned with Fortum's core competencies, are close to Fortum's home markets and are highly cash generative. Fortum expects the investment to deliver an attractive return that will support the company in accelerating the development and implementation of sustainable energy technologies, without sacrificing a competitive dividend.

The offer will be financed with existing cash resources and committed credit facilities, with Barclays Bank PLC originally underwriting 100% of the credit facilities, including ongoing liquidity requirements. In October the credit facilities were syndicated to selected relationship banks of Fortum. Dividends received from the stake in Uniper will contribute to a stable and sustainable dividend for Fortum's shareholders. Fortum will account for Uniper as an associated company unless control according to IFRS is attained; as such, EBITDA and cash flow contribution, as well as the EPS effect on Fortum's results, will depend on the final outcome of the offer. As a result of this transaction, Fortum's leverage will rise above our given guidance for net debt/EBITDA level of around 2.5x. Over time however, Fortum expects its cash generation in combination with the dividend from Uniper to reduce this level towards the stated target.

In January 2018, Fortum announced that shareholders representing 46.93% of the shares in Uniper had accepted the offer during the initial acceptance period, including E.ON. Uniper shareholders who have not tendered their shares to the offer within the initial acceptance period can still tender during the additional acceptance period that began on 20 January 2018 and ending on 2 February 2018. Fortum expects to publish the total amount of shares tendered on 7 February 2018.

## Hafslund transaction

On 26 April 2017, Fortum and the City of Oslo entered into an agreement to restructure their ownership in Hafslund ASA, one of the largest listed power groups in the Nordic region. On 4 August 2017, Fortum concluded the restructuring of the ownership in Hafslund. Fortum sold its 34.1% stake in Hafslund ASA to the City of Oslo, acquired 100% of Hafslund Markets AS and 50.0% of Hafslund Varme AS (currently Fortum Oslo Varme AS) including the City of Oslo's waste-to-energy company Klemetsrudanlegget AS (KEA), and 10% of Hafslund Produksjon Holding AS.

The total debt-free price of the acquisitions was EUR 940 million. The combined net cash investment of the transactions, including the dividend received in May 2017, was EUR 230 million. Fortum booked a one-time tax-free sales gain in its third-quarter 2017 results, totalling EUR 324 million, which corresponds to EUR 0.36 earnings per share. Transaction costs of EUR 4 million for the acquisitions were included in Items affecting comparability for the third quarter of 2017. The acquired businesses were consolidated into Fortum Group from 1 August 2017.

## Financial results

### Sales by segment

EUR million	IV/17	IV/16	2017	2016
Generation	433	435	1,677	1,657
City Solutions	340	316	1,015	782
Consumer Solutions	453	221	1,097	668
Russia	314	289	1,101	896
Other	30	24	102	92
Netting of Nord Pool transactions	-103	-129	-367	-384
<i>Eliminations</i>	-34	-13	-103	-79
<b>Total</b>	<b>1,432</b>	<b>1,143</b>	<b>4,520</b>	<b>3,632</b>

### Comparable EBITDA by segment

EUR million	IV/17	IV/16	2017	2016
Generation	191	116	603	527
City Solutions	110	90	262	186
Consumer Solutions	25	15	57	55
Russia	121	100	438	312
Other	-23	-24	-83	-64
<b>Total</b>	<b>424</b>	<b>298</b>	<b>1,275</b>	<b>1,015</b>

### Comparable operating profit by segment

EUR million	IV/17	IV/16	2017	2016
Generation	160	87	478	417
City Solutions	61	50	98	64
Consumer Solutions	18	13	41	48
Russia	84	66	296	191
Other	-28	-27	-102	-77
<b>Total</b>	<b>295</b>	<b>188</b>	<b>811</b>	<b>644</b>

## Operating profit by segment

EUR million	IV/17	IV/16	2017	2016
Generation	163	77	501	338
City Solutions	64	62	102	86
Consumer Solutions	25	22	39	59
Russia	85	67	295	226
Other	-21	-26	221	-77
<b>Total</b>	<b>315</b>	<b>202</b>	<b>1,158</b>	<b>633</b>

## October-December 2017

In the fourth quarter of 2017, sales increased to EUR 1,432 (1,143) million, up by 25%. The growth was mainly driven by higher hydro volumes and the consolidation of Hafslund. Comparable EBITDA totalled EUR 424 (298) million. Comparable operating profit totalled EUR 295 (188) million. The increase in comparable operating profit mainly resulted from higher hydro volumes, higher power prices and higher CSA payments. The operating profit totalled EUR 315 (202) million. Fortum's operating profit for the period was impacted by items affecting comparability of EUR 20 (14) million, including updated provisions, sales gains, transaction costs and the IFRS accounting treatment (IAS 39) of derivatives mainly used for hedging, as well as nuclear fund adjustments (Note 4).

The share of profit from associated companies and joint ventures was EUR 34 (15) million, of which Hafslund represented EUR 0 (9) million, TGC-1 EUR 4 (4) million and Fortum Värme EUR 27 (25) million. The share of profit from TGC-1 is based on the company's published third-quarter 2017 interim reports (Note 12). Due to the restructuring of Hafslund and the divestment of Fortum's 34.1% share in the company, Fortum will no longer in the future have share of profits from Hafslund ASA.

## January-December 2017

In 2017, sales were EUR 4,520 (3,632) million. The increase was mainly due to the strengthening Russian rouble and the consolidation of Ekokem, Hafslund and DUON. Comparable EBITDA totalled EUR 1,275 (1,015) million. Comparable operating profit totalled EUR 811 (644) million. Comparable operating profit was positively impacted by the consolidation of Hafslund, higher achieved power prices, lower real estate and capacity taxes in Swedish nuclear and hydro power plants and by improved result in the Russian operations. Operating profit totalled EUR 1,158 (633) million. Fortum's operating profit for the period was impacted by items affecting comparability of EUR 347 (-11) million, including updated provisions, sales gains, transaction costs and the IFRS accounting treatment (IAS 39) of derivatives mainly used for hedging, as well as nuclear fund adjustments (Note 4). The sales gains include a one-time tax-free sales gain of EUR 324 million from the divestment of the 34.1% stake in Hafslund ASA (Note 6).

In 2017, Fortum reached the targeted EUR 100 million savings in fixed costs announced in 2016. At the same time, the cost spend has been shifted to businesses under development and new ventures.

The share of profit from associates and joint ventures was EUR 148 (131) million, of which Hafslund represented EUR 39 (51) million, TGC-1 EUR 32 (38) million and Fortum Värme EUR 66 (66) million. The share of profit from Hafslund is based on the company's published fourth-quarter 2016 and January-June 2017 interim reports. The share of profit from TGC-1 is based on the company's published fourth-quarter 2016 and January-September 2017 interim reports (Note 12). Due to the restructuring of Hafslund and the divestment of Fortum's 34.1% share in the company, Fortum will no longer have share of profits from Hafslund ASA.

Net finance costs amounted to EUR 195 (169) million, including costs relating to financing arrangements for the Uniper transaction.

Profit before income taxes was EUR 1,111 (595) million.

Taxes for the period totalled EUR 229 (90) million. The effective income tax rate according to the income statement was 20.6% (15.2%). The comparable effective income tax rate, excluding the impact of the share of profit from associated companies and joint ventures as well as non-taxable capital gains and other major one-time income tax effects, was 18.8% (20.0%) (Note 8).

The profit for the period was EUR 882 (504) million. Earnings per share were EUR 0.98 (0.56), of which EUR -0.14 per share was related to a Swedish income tax case and EUR 0.38 (-0.02) per share was related to items affecting comparability (Note 20).

## Financial position and cash flow

### Cash flow

In 2017, net cash from operating activities increased by EUR 372 million to EUR 993 (621) million, due to a EUR 260 million increase in comparable EBITDA, a EUR 193 million decrease in realised foreign exchange gains and losses, a EUR 133 million decrease in income taxes paid and a EUR 183 decrease in working capital compared to the previous year. The foreign exchange gains and losses of EUR -83 (110) million relate to the rollover of foreign exchange contract hedging loans to Russian and Swedish subsidiaries. In June 2016, Fortum paid income taxes in Sweden totalling EUR 127 million regarding an ongoing tax dispute. The change in working capital in 2017 was EUR 81 (-102) million. The biggest impact was the effect of the daily cash settlements for futures in Nasdaq OMX Commodities Europe (Additional cash flow information).

Investments excluding acquisitions increased by EUR 58 million to EUR 657 (599) million compared to the previous year. Acquisition of shares amounted to EUR 972 (695) million mainly due to the Hafslund transaction in 2017 and the acquisitions of Ekokem and Polish DUON in 2016. Divestment of shares, mainly the Hafslund transaction, amounted to EUR 741 million (39). Net cash used in investing activities decreased to EUR 807 (1,701) million including the increase in cash collaterals of EUR -3 (-359) million given as trading collaterals to commodity exchanges.

Cash flow before financing activities was EUR 187 (-1,080) million, mainly impacted by the Hafslund transaction.

In 2017, Fortum paid dividends totalling EUR 977 (977) million. Payments of long-term liabilities totalled EUR 543 (934) million, including the repayment of bonds of EUR 343 million and other loan repayments of EUR 200 million. The net decrease in liquid funds was EUR 1,241 (3,064) million.

### Assets and capital employed

At the end of the reporting period, total assets amounted to EUR 21,753 (21,964) million, a decrease of EUR 211 million. Liquid funds at the end of the period amounted to EUR 3,897 (5,155) million. Capital employed decreased by EUR 477 million and was EUR 18,172 (18,649) million.

### Equity

Equity attributable to owners of the parent company totalled EUR 13,048 (13,459) million.

The decrease in equity attributable to owners of the parent company was EUR 411 million, mainly due to the net profit for the period of EUR 866 million, translation differences of EUR -369 million and the dividend payment of EUR 977 million.



## Financing

Net debt increased by EUR 1,036 million to EUR 988 (-48) million.

At the end of the reporting period, the Group's liquid funds totalled EUR 3,897 (5,155) million. Liquid funds include cash and bank deposits held by PAO Fortum amounting to EUR 246 (105) million. In addition to liquid funds, Fortum's undrawn committed credit facilities totalled EUR 1.8 billion (Note 14), excluding committed credit facilities of EUR 12.0 billion for Fortum's offer for Uniper shares.

Net financial expenses totalled EUR 195 (169) million, of which net interest expenses were EUR 132 (139) million. Net financial expenses include costs relating to financing arrangements of the Uniper transaction.

In September 2017, Standard & Poor's and Fitch Ratings placed both Fortum's long-term and short-term credit ratings on credit watch negative on possible adverse impacts of the planned Uniper investment. In January 2018, Standard & Poor's downgraded Fortum's long-term credit rating from BBB+ to BBB with a Negative Outlook due to the Uniper investment. The short-term rating was affirmed at level A-2. Fitch Ratings rates Fortum's long-term credit rating at level BBB+ and the short-term rating at level F2.

## Key figures

At the end of 2017, the comparable net debt to EBITDA ratio was 0.8 (0.0).

Gearing was 7% (0%) and the equity-to-assets ratio 61% (62%). Equity per share was EUR 14.69 (15.15). Return on capital employed improved to 7.1% (4.0%). Fortum targets a long-term Return on capital employed of at least 10%.

## Market conditions

### Nordic countries

According to preliminary statistics, electricity consumption in the Nordic countries was 108 (107) terawatt-hours (TWh) during the fourth quarter of 2017. In 2017, electricity consumption was 392 (390) TWh.

At the beginning of 2017, the Nordic water reservoirs were at 75 TWh, which is 8 TWh below the long-term average and 23 TWh lower compared to the previous year. At the end of 2017, the reservoirs were 86 TWh, which is 3 TWh above the long-term average and 11 TWh higher compared to the previous year. Precipitation in the Nordics, was clearly above the normal level both in the fourth quarter and during the full year 2017.

In the fourth quarter of 2017, the average system spot price in Nord Pool was EUR 30.6 (34.4) per MWh. The mild and wet weather resulting in higher hydro reservoirs and higher hydro production volumes, depressed the Nord Pool system price for the fourth quarter. The average area price in Finland was EUR 33.0 (37.5) per MWh and EUR 31.1 (36.7) per MWh in Sweden (SE3, Stockholm). Higher availability in the Nordic nuclear generation and the internal transmission capacity in combination with mild weather lowered area prices in Finland and Sweden compared to the year 2016.

The average system spot price in Nord Pool for the year 2017 was EUR 29.4 (26.9) per MWh, and the average area price in Finland was EUR 33.2 (32.4) per MWh and EUR 31.2 (29.2) per MWh in Sweden (SE3, Stockholm). The main driver for the price increase was the clearly higher marginal cost of coal condensing power, which has contributed to stronger continental prices and increased exports from the Nordics.

In Germany, the average spot price in the fourth quarter of 2017 fell to EUR 33.0 (37.6) per MWh, while the full-year price for 2017 increased to EUR 34.2 (29.0) per MWh.

The market price of CO<sub>2</sub> emission allowances (EUA) increased from EUR 6.5 per tonne at the beginning of the year to EUR 8.2 per tonne at the end of 2017.

## Russia

Fortum operates both in the Tyumen and Khanty-Mansiysk area of Western Siberia, where industrial production is dominated by the oil and gas industries, and in the Chelyabinsk area of the Urals, which is dominated by the metal industry. The Russian market is divided in two price zones and Fortum operates in the First Price Zone.

According to preliminary statistics, Russian electricity consumption was 281 (287) TWh during the fourth quarter of 2017. The corresponding figure for the First Price Zone (European and Urals part of Russia), was 215 (220) TWh. Russian electricity consumption in 2017 was 1,035 (1,027) TWh and the corresponding figure for the First Price Zone was 799 (787) TWh.

In the fourth quarter of 2017, the average electricity spot price, excluding capacity price, increased by 1.5% to RUB 1,221 (1,203) per MWh in the First Price Zone. In 2017, the average electricity spot price, excluding capacity price, was unchanged at RUB 1,204 (1,204) per MWh in the First Price Zone.

More detailed information about the market fundamentals is included in the tables at the end of the report (pages 63-65).

## European business environment and carbon market

### Revision of the EU ETS approved

After two and a half years of legislative processing the revision of the EU Emissions Trading Scheme (ETS) for the period 2021-2030 was adopted in December. The new rules will increase the annual emission reduction target of the ETS from the current 1.74% to 2.2%. From the carbon market balance and pricing perspective the essential improvement is the strengthening of the Market Stability Reserve (MSR), including a temporary doubling of the intake rate from 12% to 24% during 2019-2023 and cancellation of allowances from the reserve from 2023 onwards. In addition, the new directive includes a provision for voluntary cancellation of allowances from the market.

However, the agreed setup is not yet in line with the Paris Climate Agreement and meets only the lower end of the EU 2050 goal to reduce emissions by 80-95% by 2050.

### Swedish hydropower legislation

In June, the Swedish Government released a proposal on revision of hydro legislation including changes in the Environmental Act. This is a follow-up of the Swedish energy agreement done in summer 2016 and includes adjustments to meet requirements based on the EU Water Framework Directive. The aim is to mitigate environmental impacts and facilitate more efficient power production. According to the proposal, environmental permits for hydropower should be revised during a 20-year period in accordance with a national plan for prioritisation. The Ministry of Environment aims to have the revised legislation in place in March 2018.

Fortum emphasises the need to reform the Swedish system for hydro management. However, the proposal fails in ensuring a fair balance between environmental improvements and power production and a reasonable level of legal certainty.

The energy agreement requires hydro power companies to carry the full cost of environmental improvements. The largest hydro power companies are planning a joint fund in order to secure financing for the improvements. The fund is expected to be in operation from July 2018 provided that the revision of hydro legislation has been completed.

### Swedish nuclear waste fund fee approved

In December, the Swedish Government decided on the waste fund fees for the period 2018-2020. The fees are based on a new structure with a calculated lifetime of 50 years and on parts of the funds capital being invested in shares.

## Swedish nuclear and hydro taxes adopted

In May, the Swedish Parliament adopted the proposed changes of nuclear and hydropower taxation in accordance with the energy agreement from June 2016. Starting from 1 July 2017, the tax on installed effect in nuclear reactors decreased by 90%, from SEK 14,770/MW/month to SEK 1,500/MW/month, and on 1 January 2018 the tax was abolished. The hydropower real-estate tax will be reduced from 2.8% to 0.5% in four steps by 2020.

## Development of Nordic energy cooperation

Development of regional energy cooperation in the Nordic context moved forward in 2017. Following the June 2017 report by independent investigator Jorma Ollila, the Nordic energy ministers discussed the report in their annual meeting in November. They agreed on next-step actions to implement these proposals, including a proposal to establish a Nordic electricity market forum comprising various actors in the sector to discuss topics particularly related to development of the Nordic regional power market.

## Segment reviews

As of 1 March 2017, the City Solutions division was divided into two separate divisions: City Solutions and Consumer Solutions, reported as separate segments. City Solutions comprises heating and cooling, waste-to-energy, biomass and other circular economy solutions. Consumer Solutions comprises electricity and gas retail businesses in the Nordics and in Poland, including the customer service, invoicing and debt collection business. (Nordic customer services previously reported under the Other segment). Comparison figures in accordance with the new organisational structure were published on 11 April 2017.

## Generation

*The Generation segment comprises power production in the Nordics including nuclear, hydro and thermal power production, power portfolio optimisation, trading and industrial intelligence, and nuclear services globally.*

EUR million	IV/17	IV/16	2017	2016
Sales	433	435	1,677	1,657
- power sales	428	429	1,649	1,635
of which Nordic power sales*	350	318	1,342	1,339
- other sales	6	6	28	22
Comparable EBITDA	191	116	603	527
Comparable operating profit	160	87	478	417
Operating profit	163	77	501	338
Share of profits from associates and joint ventures**	1	-25	-1	-34
Comparable net assets (at period-end)			5,672	5,815
Comparable return on net assets, %			8.4	6.9
Capital expenditure and gross investments in shares	55	80	264	203
Number of employees			1,035	979

\* The Nordic power sales income and volume includes hydro and nuclear generation, excluding minorities. It does not include thermal generation, minorities, customer business or other purchases.

\*\* Power plants are often built jointly with other power producers, and owners purchase electricity at cost, including interest cost and production taxes. The share of profit/loss is mainly IFRS adjustments (e.g. accounting for nuclear-related assets and liabilities) and depreciations on fair-value adjustments from historical acquisitions (Note 18 in the consolidated financial statements 2017).

## Power generation by source

TWh	IV/17	IV/16	2017	2016
Hydro power, Nordic	5.7	4.2	20.7	20.7
Nuclear power, Nordic	5.6	6.2	23.0	24.1
Thermal power, Nordic	0.0	0.3	0.5	0.5
<b>Total</b>	<b>11.3</b>	<b>10.7</b>	<b>44.2</b>	<b>45.3</b>

## Nordic sales volumes

TWh	IV/17	IV/16	2017	2016
Nordic sales volume	13.3	13.0	51.8	52.4
of which Nordic power sales volume*	10.9	10.1	42.2	43.2

\* The Nordic power sales income and volume includes hydro and nuclear generation, excluding minorities. It does not include thermal generation, minorities, customer business or other purchases.

## Sales price

EUR/MWh	IV/17	IV/16	2017	2016
Generation's Nordic power price*	32.0	31.5	31.8	31.0

\* Generation's Nordic power price includes hydro and nuclear generation, excluding minorities. It does not include thermal generation, minorities, customer business or other purchases.

## October-December 2017

The Generation segment's total power generation in the Nordic countries increased to 11.3 (10.7) TWh. The higher hydro volume was partly offset by lower nuclear volumes. CO<sub>2</sub>-free production accounted for 100% (97%) of the total production.

Comparable EBITDA was EUR 191 (116) million. Comparable operating profit was EUR 160 (87) million. The increase was mainly due to higher hydro volumes, a higher achieved power price and lower real-estate and capacity taxes in Swedish hydro and nuclear power plants. The increase was partly offset by lower nuclear volumes resulting from the closure of Oskarshamn 1 and lower nuclear availability.

Operating profit amounted to EUR 163 (77) million and was affected by EUR 2 (-10) million of the IFRS accounting treatment (IAS 39) of derivatives, mainly used for hedging Fortum's power production, updated provisions, and by nuclear fund adjustments (Note 4).

The share of profits from associated companies and joint ventures totalled EUR 1 (-25) million (Note 12).

The Nordic power price achieved in the Generation segment was EUR 32.0 (31.5) per MWh, EUR 0.5 per MWh higher than in the comparable period of 2016, as a result of higher average hedging price. The average system spot price of electricity in Nord Pool declined to EUR 30.6 (34.4) per MWh. The average area price in Finland was EUR 33.0 (37.5) per MWh and in Sweden (SE3, Stockholm) EUR 31.1 (36.7) per MWh.

## January-December 2017

The Generation segment's total power generation in the Nordic countries was 44.2 (45.3) TWh. CO<sub>2</sub>-free production accounted for 99% (99%) of the total production.

Comparable EBITDA increased to EUR 603 (527) million. Comparable operating profit improved to EUR 478 (417) million. The increase was mainly related to the higher achieved power price, and lower real-estate and capacity taxes in Swedish hydro and nuclear power plants, and was partly offset by lower nuclear production volumes resulting from the closure of Oskarshamn 1 and lower nuclear availability.

Operating profit clearly increased to EUR 501 (338) million and was positively affected by EUR 23 (-79) million of the IFRS accounting treatment (IAS 39) of derivatives mainly used for hedging Fortum's power production, updated provisions, and by nuclear fund adjustments (Note 4).

The share of profits from associated companies and joint ventures totalled EUR -1 (-34) million (Note 12).

The Nordic power price achieved in the Generation segment was EUR 31.8 (31.0) per MWh, EUR 0.8 per MWh higher than in 2016. The average system spot price of electricity in Nord Pool was EUR 29.4 (26.9) per MWh. The average area price in Finland was EUR 33.2 (32.4) per MWh and in Sweden (SE3, Stockholm) EUR 31.2 (29.2) per MWh.

## City Solutions

*City Solutions develops sustainable city solutions into a growing business for Fortum. The segment comprises heating and cooling, waste-to-energy, biomass and other circular economy solutions. The business operations are located in the Nordics, the Baltic countries and Poland. The segment also includes Fortum's 50% holding in Fortum Värme, which is a joint venture and is accounted for using the equity method.*

EUR million	IV/17	IV/16	2017	2016
Sales	340	316	1,015	782
- heat sales	194	156	523	448
- power sales	34	42	121	122
- other sales	113	119	370	212
Comparable EBITDA	110	90	262	186
Comparable operating profit	61	50	98	64
Operating profit	64	62	102	86
Share of profits from associates and joint ventures	31	27	80	76
Comparable net assets (at period-end)			3,728	2,873
Comparable return on net assets, %			5.5	5.9
Capital expenditure and gross investments in shares	69	55	556	807
Number of employees			1,907	1,701

In April 2017, Ekokem was rebranded to Fortum. The rebranded Ekokem forms City Solutions' Recycling and Waste Solutions unit.

On 4 August 2017, Fortum concluded the restructuring of its ownership in Hafslund. Fortum's 50% ownership in Fortum Oslo Varme (the combined company of Hafslund's Heat business area and Klemetsrudanlegget (KEA) has been consolidated as a subsidiary to Fortum in the results of City Solutions as of 1 August 2017.

### October-December 2017

In the fourth quarter of 2017, heat sales volumes increased to 3.6 (3.3) TWh, of which Fortum Oslo Varme's share was 0.6 TWh. Power sales volumes from CHP production totalled 0.8 (0.9) TWh.

Sales increased to EUR 340 (316) million, positively impacted by the consolidation of Fortum Oslo Varme.

Comparable EBITDA increased and totalled EUR 110 (90) million. Comparable operating profit was EUR 61 (50) million. The consolidation of Fortum Oslo Varme had a positive effect of EUR 21 million on the comparable operating profit. The positive impact on the result was partly offset by lower sales volumes of power and district heat, mainly as a consequence of warmer weather in the Nordics.

Operating profit was EUR 64 (62) million including EUR 3 (13) million of items affecting comparability (Note 4).

The share of profits from associated companies and joint ventures totalled EUR 31 (27) million mainly the share of profit from Fortum Värme (Note 12).

### January-December 2017

Heat sales volumes amounted to 10.0 (8.7) TWh. Power sales volumes from CHP production totalled 2.6 (2.8) TWh, of which Fortum Oslo Varme's share was 0.7 TWh.

Sales increased to EUR 1,015 (782) million, mainly as a consequence of the consolidation of Ekokem and Fortum Oslo Varme.

Comparable EBITDA increased and totalled EUR 262 (186) million. Comparable operating profit improved to EUR 98 (64) million. The consolidation of Fortum Oslo Varme had a positive effect of EUR 29 million on the comparable EBITDA and EUR 15 million on the comparable operating profit. In addition, the consolidation of Ekokem, improved power prices and fuel mix contributed positively to the results.

Operating profit totalled EUR 102 (86) million, including EUR 4 (22) of items affecting comparability (Note 4).

The share of profits from associated companies and joint ventures totalled EUR 80 (76) million, including the share of profit from Fortum Värme (Note 12).

### Heat sales by country

TWh	IV/17	IV/16	2017	2016
Finland	1.2	1.3	3.9	3.6
Poland	1.2	1.4	3.7	3.6
Other countries	1.1	0.6	2.5	1.5
<b>Total</b>	<b>3.6</b>	<b>3.3</b>	<b>10.0</b>	<b>8.7</b>

### Power sales by country

TWh	IV/17	IV/16	2017	2016
Finland	0.4	0.5	1.5	1.5
Poland	0.1	0.2	0.4	0.7
Other countries	0.2	0.2	0.7	0.6
<b>Total</b>	<b>0.8</b>	<b>0.9</b>	<b>2.6</b>	<b>2.8</b>

## Consumer Solutions

Consumer Solutions comprises electricity and gas retail businesses in the Nordics and Poland, including the customer service, invoicing and debt collection business. Fortum is the largest electricity retail business in the Nordics, with approximately 2.5 million customers across different brands in Finland, Sweden, Norway and Poland. The business provides electricity and related value added products as well as new digital customer solutions.

EUR million	IV/17	IV/16	2017	2016
Sales	453	221	1,097	668
- power sales	381	166	862	528
- other sales	72	55	235	139
Comparable EBITDA	25	15	57	55
Comparable operating profit	18	13	41	48
Operating profit	25	22	39	59
Comparable net assets (at period-end)			638	154
Capital expenditure and gross investments in shares	3	2	493	120
Number of employees			1,543	961

On 4 August 2017, Fortum concluded the restructuring of its ownership in Hafslund. Hafslund Markets has been consolidated into the results of Consumer Solutions as of 1 August 2017.

### October-December 2017

Electricity and gas sales volumes totalled 10.5 (4.8) TWh. The total customer base at the end of the period was 2.49 (1.36) million. The increase in electricity and gas volumes, as well as in the customer base was mainly driven by the consolidation of Hafslund.

Sales increased to EUR 453 (221) million driven by the consolidation of Hafslund and was partly offset by the sale of the Polish gas infrastructure company DUON Dystrybucja.

Comparable EBITDA was EUR 25 (15) million and comparable operating profit was EUR 18 (13) million. The consolidation of Hafslund had a positive effect of EUR 12 million on the comparable operating profit. The improvement in the result was partly offset by the lower average margin in electricity and gas products and higher costs arising from the increased focus and spend on the development of new digital services, which continued to burden the results. Renegotiated invoicing service agreements for external distribution companies also negatively impacted the results.

Operating profit of EUR 25 (22) million was affected by sales gains and the IFRS accounting treatment (IAS 39) of derivatives mainly used for hedging, EUR 9 (0) million (Note 4).

### January-December 2017

Electricity and gas sales volumes totalled 24.4 (14.8) TWh. The total customer base at the end of the period was 2.49 (1.36) million.

Sales increased to EUR 1,097 (668) million, mainly due to the consolidation of Polish DUON and Hafslund.

Comparable EBITDA amounted to EUR 57 (55) million and comparable operating profit was EUR 41 (48) million. The consolidation of Hafslund had a positive effect of EUR 22 million on the comparable EBITDA and EUR 13 million on the comparable operating profit. The result improvement was offset by the lower average margin in electricity and gas products and higher costs arising from the increased focus and spend on the development of new digital services. The renegotiated invoicing service agreements for external distribution companies also had a negative impact on the results.

Operating profit declined to EUR 39 (59) million affected by sales gains and the IFRS accounting treatment (IAS 39) of derivatives, mainly used for hedging, EUR -2 (11) million (Note 4).

## Sales volumes

TWh	IV/17	IV/16	2017	2016
Electricity	9.3	3.6	20.5	12.3
Gas*	1.2	1.1	4.0	2.5

\* Not including wholesale volumes.

## Number of customers

Thousands*	2017	2016
Electricity	2,470	1,350
Gas	20	10
<b>Total</b>	<b>2,490</b>	<b>1,360</b>

\* Rounded to the nearest 10,000.

## Russia

The Russia segment comprises power and heat generation and sales in Russia. The segment also includes Fortum's over 29% holding in TGC-1, which is an associated company and is accounted for using the equity method.

EUR million	IV/17	IV/16	2017	2016
Sales	314	289	1,101	896
- power sales	226	206	837	691
- heat sales	87	81	258	199
- other sales	1	2	6	6
Comparable EBITDA	121	100	438	312
Comparable operating profit	84	66	296	191
Operating profit	85	67	295	226
Share of profits from associates and joint ventures	4	4	31	38
Comparable net assets (at period-end)			3,161	3,284
Comparable return on net assets, %			10.1	8.0
Capital expenditure and gross investments in shares	167	67	277	201
Number of employees			3,495	3,745

After the completion of the multi-year investment programme in March 2016, Fortum's total capacity in Russia amounts to 4,794 MW, including 35 MW of solar power acquired at the end of 2017. The generation capacity built after the year 2007 amounts to 2,333 MW. Under the Russian Capacity Supply Agreement (CSA – "new capacity") this capacity entitles Fortum to guaranteed payments for approximately ten years after the commissioning of each new unit. The received capacity payments vary depending on age, location, type and size of the plant, as well as on seasonality and availability. The CSA payments can also vary somewhat on an annual basis, as they are linked to Russian Government long-term bonds with eight to ten years maturity.



In March 2017, the System Administrator of the wholesale market published its annual data which is the basis for the CSA payment calculation. These components comprise among others the weighted average cost of capital (WACC), the consumer price index (CPI) and re-examination of earnings from the electricity-only (spot) market (done every three and six years after commissioning of a unit). Fortum's CSA payment for 2017 was revised upwards to compensate for lower earnings from the electricity-only market. In addition, certain power plants were entitled to higher CSA payments when entering into the seven-to-ten-year time period of generation. The increase of the CSA payment was somewhat offset by lower Government bond rates and consumer price index (CPI).

Fortum's Russian capacity generation, totalling 2,461 MW, was allowed to participate in the Competitive Capacity Selection (CCS – "old capacity") for 2017. All Fortum plants offered in the auction were selected. Fortum has obtained forced mode status for 195 MW of its capacity, i.e. it receives higher-rate capacity payments.

### **October-December 2017**

In the fourth quarter of 2017, the Russia segment's power sales volumes increased to 8.4 (7.9) TWh while heat sales volumes declined to 6.8 (7.7) TWh. The power volumes increased due to commissioning of the combined-cycle gas turbine (CCGT) Chelyabinsk GRES unit 3. Warm weather lowered heat sales volumes.

Sales increased to EUR 314 (289) million, mainly as a result of higher received CSA payments and commissioning of the Chelyabinsk GRES unit 3.

The Russia segment's comparable EBITDA was EUR 121 (100) million. Comparable operating profit was EUR 84 (66) million. The result was positively impacted by higher received CSA payments and improved bad-debt collection but the improvement was slightly offset by lower electricity margins.

Operating profit improved to EUR 85 (67) million.

The share of profits from associated companies and joint ventures totalled EUR 4 (4) million (Note 12).

### **January-December 2017**

In 2017, the Russia segment's power sales volumes amounted to 30.5 (29.5) TWh and heat sales volumes totalled 19.8 (20.7) TWh. The power volumes increased due to commissioning of the Chelyabinsk GRES unit 3.

Sales increased to EUR 1,101 (896) million, mainly supported by the strengthening of the Russian rouble, higher received CSA payments, the change in the heat supply scheme in Tyumen and commissioning of the Chelyabinsk GRES unit 3.

The Russia segment's comparable EBITDA was EUR 438 (312) million and the comparable operating profit was EUR 296 (191) million. The Russian rouble had a positive effect of EUR 31 million. The commissioning of the new unit, higher received CSA payments, higher power volumes, as well as improved bad-debt collections also affected the results positively.

Operating profit was EUR 295 (226) million, including sales gains of EUR 0 (35) million (Note 4).

The share of profits from associated companies and joint ventures totalled EUR 31 (38) million (Note 12).

## Key electricity, capacity and gas prices for Fortum Russia

	IV/17	IV/16	2017	2016
Electricity spot price (market price), Urals hub, RUB/MWh	1,038	1,063	1,041	1,054
Average regulated gas price, Urals region, RUB/1000 m <sup>3</sup>	3,755	3,614	3,685	3,614
Average capacity price for CCS "old capacity", tRUB/MW/month*	157	155	148	140
Average capacity price for CSA "new capacity", tRUB/MW/month*	983	924	899	815
Average capacity price, tRUB/MW/month	577	556	535	481
Achieved power price for Fortum in Russia, RUB/MWh	1,845	1,818	1,813	1,734
Achieved power price for Fortum in Russia, EUR/MWh**	27.0	26.2	27.5	23.5

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

\*\* Translated using the average exchange rate.

## Capital expenditures, divestments and investments in shares

In the fourth quarter of 2017, capital expenditures and investments in shares totalled EUR 331 (263) million. Investments excluding acquisitions were EUR 208 (235) million (Note 4).

In 2017, capital expenditures and investments in shares totalled EUR 1,815 (1,435) million. Investments excluding acquisitions were EUR 690 (591) million (Note 4).

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

	Type	Electricity capacity, MW	Heat capacity, MW	Supply starts/started
<b>Generation</b>				
Loviisa, Finland	Nuclear	6		2018
Hydro plants in Sweden and Finland	Hydro	~12		2018
<b>City Solutions</b>				
Zabrze, Poland	CHP	75	145	2018
<b>Russia</b>				
Ulyanovsk	Wind	35		1 Jan 2018
Ulyanovsk	Wind	50*		H1 2019
<b>Other</b>				
Solberg, Sweden	Wind	75**		Q1 2018
Ånstadblåheia, Norway	Wind	50		2018
Sørfjord, Norway	Wind	97		2019
Karnataka, India	Solar	100		Q4 2017

\* Fortum-RUSNANO wind investment fund is a joint venture and Fortum's share is 50%.

\*\* Skellefteå Kraft AB (SKAB) is participating in the project with a 50% (37.5 MW) share.

## Generation

Through its interest in Teollisuuden Voima Oyj (TVO), Fortum is participating in the building of Olkiluoto 3 (OL3), a 1,600-MW nuclear power plant unit in Finland. The plant's start of regular electricity production is expected to take place in May 2019, according to the plant supplier AREVA-Siemens Consortium.

Olkiluoto 3 is funded through external loans, share issues and shareholder loans according to shareholder agreements between the owners and TVO. As a 25% shareholder in Olkiluoto 3, Fortum has committed to funding of the project pro rata. At the end of December 2017, Fortum's shareholder loans to TVO amounted to EUR 145 million and the outstanding commitment for was EUR 88 million (Note 13).

## City Solutions

On 30 March 2017, the final decision regarding the minority redemption process of Ekokem Oyj shares was made by the arbitration court, bringing Fortum's ownership to 100%.

## Consumer Solutions

In May 2017, Fortum agreed to sell 100% of its shares in the Polish gas infrastructure company DUON Dystrybucja S.A. to Infracapital, the infrastructure investment arm of M&G Investments. DUON Dystrybucja S.A. is transporting grid gas and LNG in Poland. The company was acquired as part of the acquisition of the electricity and gas sales company Grupa DUON S.A. (currently Fortum Markets Polska S.A.) in 2016. The divestment was concluded on 28 July 2017. The sale had a minor positive impact on Fortum's third-quarter results.

## Russia

On 27 April 2017, Fortum and RUSNANO, a Russian state-owned development company, signed a 50/50 investment partnership (joint venture) in order to secure the possibility of a Russian Capacity Supply Agreement (CSA) wind portfolio. In June, 1,000 MW of the bids of the Fortum-RUSNANO wind investment fund were selected in the Russian renewable energy auction. The bids were for projects to be commissioned during 2018-2022 with a price corresponding to approximately EUR 115-135 per MWh. The projects will be covered by CSA for a period of 15 years. The investment decisions will be made on a case-by-case basis within the total mandate of the wind investment fund. Fortum's equity stake in the wind investment fund totals a maximum of RUB 15 billion (currently approximately EUR 220 million). The amount is to be invested over time (approx. 5 years), subject to separate investment decisions. The investment fund has selected Vestas as the supplier of wind turbines in Russia. In October 2017, the wind investment fund made an investment decision on the first 50-MW wind farm. The wind farm is expected to start production during the first half of 2019.

In November 2017, Fortum completed the replacement investment at the Chelyabinsk GRES power plant. The new combined-cycle gas turbine (CCGT) unit with 247.5 MW of electricity generation capacity and 174 MW of heat capacity started commercial operation. The new turbine replaces the previous eight turbine generators in the power plant. This unit is not within the scope of the previously completed larger investment programme and consequently receives Competitive Capacity Selection (CCS) payments. Fortum's Chelyabinsk GRES site has electricity generation capacity of 742 MW and heat production capacity of 988 MW.

On 30 November 2017, Fortum signed an agreement to acquire three solar power companies from Hevel Group, Russia's largest integrated solar power company. The transaction was closed in December 2017. All three power plants are operational with a total capacity of 35 MW. The plants will receive Capacity Supply Agreement (CSA) payments for approximately 15 years after commissioning at an average CSA price corresponding to approximately EUR 430/MWh. The plants were commissioned in 2016 and 2017. Hevel Group will provide operation and maintenance services for all three power plants.

## Other

In January 2017, Fortum finalised the acquisition of three wind power projects from the Norwegian company Nordkraft. The transaction consists of the Nygårdsfjellet wind farm, which is already operational, as well as the fully-permitted Ånstadblåheia and Sør fjord projects. The wind farms are expected to be commissioned in 2018 and 2019. When built, the total installed capacity of the three wind farms will be approximately 170 MW. On 29 September 2017, Fortum announced the decision to invest in the Sør fjord wind farm in northern Norway. The Sør fjord wind park will have 23 wind turbines with a total capacity of 97 megawatts. The wind turbines for Sør fjord will be delivered by Siemens Gamesa Renewable Energy.

In March 2017, Fortum commissioned the 70-MW solar plant at Bhadla solar park in Rajasthan, India and in December 2017 Fortum commissioned the 100-MW solar plant at Pavagada solar park in Karnataka, India. Fortum won a reverse auction for the projects in 2016. The power plants will operate based on a Power Purchase Agreement (PPA), with a fixed tariff for 25 years. The Power Purchase Agreements have been made with National Thermal Power Corporation Limited (NTPC), India's largest power utility.

## Shares and share capital

### Fortum shares on Nasdaq Helsinki

January-December 2017	No. of shares traded	Total value EUR	High EUR	Low EUR	Average* EUR	Last EUR
FORTUM**	582,872,719	8,905,758,815	18.94	12.69	15.28	16.50

\* Volume weighted average.

\*\* FUM1V until 25 January 2017.

	31 December 2017	31 December 2016
Market capitalisation, EUR million	14,658	12,944
Number of shareholders	127,297	131,882
Finnish State holding, %	50.8	50.8
Nominee registrations and direct foreign shareholders, %	30.6	28.1
Households, %	10.2	10.8
Financial and insurance corporations, %	1.4	2.0
Other Finnish investors, %	7.0	8.3

In addition to Nasdaq Helsinki, Fortum shares were traded on several alternative market places, for example Boat, Cboe and Turquoise, and on the OTC market. In 2017, approximately 61% of Fortum's shares were traded on markets other than Nasdaq Helsinki.

On 31 December 2017, Fortum Corporation's share capital was EUR 3,046,185,953 and the total number of registered shares was 888,367,045. Fortum Corporation did not own its own shares.

On 4 April 2017, the Annual General Meeting decided to authorise the Board of Directors to decide on the repurchase and disposal of the company's own shares up to a maximum of 20,000,000 shares, which corresponds to approximately 2.25 per cent of all the shares in the company. The authorisation will be effective until the next Annual General Meeting and in any event no longer than for a period of 18 months. The authorisation had not been used by 2 February 2018.

## Group personnel

Fortum's operations are mainly based in the Nordic countries, Russia, Poland and the Baltic Rim area. The total number of employees at the end of 2017 was 8,785 (8,108). The increase was mainly related to the consolidation of Hafslund.

At the end of 2017, the Generation segment had 1,035 (979) employees, City Solutions 1,907 (1,701), Consumer Solutions 1,543 (961), Russia 3,495 (3,745), and Other 805 (722).

## Research and development

Sustainability is at the core of Fortum's strategy and, alongside Fortum's current businesses, the company is carefully exploring and developing new sources of growth within renewable energy production.

Fortum's goal is to be at the forefront of energy technology and application development. To accelerate innovation and the commercialisation of new offerings, Fortum is strengthening its in-house innovation and digitalisation efforts and building partnerships with leading global suppliers, promising technology and service companies, and research institutions. Fortum makes direct and indirect investments in start-ups that have promising new innovations focused on connectivity, have disruptive potential and accelerate the transition towards a circular economy. Fortum also invests in technologies that support better utilisation of the current asset base and that can create new markets and products for Fortum. The company is continuously looking for emerging clean energy solutions and for solutions that increase resource and system efficiency.

The Group reports its R&D expenditure on a yearly basis. In 2017, Fortum's R&D expenditure was EUR 53 (52) million, or 1.2% (1.4%) of sales.

## Sustainability

Fortum strives for balanced management of economic, social and environmental responsibility in the company's operations, emphasising the following focus areas:

<b>Economic responsibility</b>	<b>Social responsibility</b>	<b>Environmental responsibility</b>
Economic benefits to our stakeholders	Operational and occupational safety	Energy and resource efficiency
Long-term value and growth	Secure energy supply for customers	Reduction of environmental impacts
Sustainable supply chain	Personnel well-being	Climate-benign energy production and systems
Customer satisfaction	Business ethics and compliance	Solutions for sustainable cities

The Group-level sustainability targets are linked to the main sustainability focus areas and emphasise Fortum's role in society. They measure not only environmental and safety targets, but also Fortum's reputation, customer satisfaction, employee wellbeing, and the security of power and heat production. Targets are set annually and are based on continuous operational improvement.

The achievement of the sustainability targets is monitored in monthly, quarterly and annual reporting. Fortum publishes a yearly Sustainability Report with additional information on the company's sustainability performance.

## Group sustainability targets and performance 2017

	Target	IV/2017	2017
<b>Economic responsibility</b>			
Reputation index, based on One Fortum Survey	70.7	-	72.3
Customer satisfaction index (CSI), based on One Fortum Survey	Level "good", 70-74	-	64-76
<b>Environmental responsibility</b>			
Specific CO <sub>2</sub> emissions from total energy production as a five-year average, g/kWh	< 200	181	188
Energy-efficiency improvement by 2020, base-line year 2012, GWh/a	> 1,400	-	1,502
Major EHS incidents, no.	≤ 21	4	20
<b>Social responsibility</b>			
Energy availability of CHP plants, %	> 95	96.2	96.1
Total recordable injury frequency (TRIF), own personnel	≤ 2.5	2.3	1.8
Lost workday injury frequency (LWIF), own personnel	≤ 1.0	2.0	1.2
Lost workday injury frequency (LWIF), contractors	≤ 3.5	6.0	4.2
Number of severe occupational accidents	≤ 5	1	1
Quality of investigation process of occupational accidents, major EHS incidents and near misses	Level 1.0	Level 0.75	Level 0.75
Sickness-related absences, %	≤ 2.3	2.3*	2.2*

\*Excluding DUON and Hafslund

Fortum is listed on the Nasdaq Helsinki exchange and is included in the STOXX Global ESG Leaders, OMX GES Sustainability Finland, and ECPI® and Euronext Vigeo Eurozone 120 indices. Fortum is also ranked in category A- in the annual CDP (formerly the Carbon Disclosure Project) rating 2017, and it has received a Prime Status (B-) rating by the German oekom research AG.

Fortum's sustainability reporting covers all functions under Fortum's operational control, including subsidiaries in all countries of operation. Sustainability information relating to Hafslund Markets' and Fortum Oslo Varme's operations is included in Fortum's reporting as of August 2017.

### Economic responsibility

Fortum's goal is to achieve excellent financial performance in strategically selected core areas through strong competence and responsible ways of operating. Fortum measures financial performance with return on capital employed (target: at least 10%) and capital structure (target: comparable net debt/EBITDA around 2.5).

Targets for reputation and customer satisfaction are monitored annually. In the One Fortum Survey in 2017 company reputation among key stakeholders was 72.3 (72.5) points (on a scale of 1-100) and exceeded the target of 70.7 points. The stakeholder groups selected for the One Fortum Survey differ between the years 2016 and 2017. The reference value for the 2017 target-setting (70.7) is the reputation index (69.7) given by the same stakeholder groups in 2016. The Group target (70-74 points) for customer satisfaction was achieved among all business areas, but not in retail electricity sales. The Recycling and Waste Solutions unit was not part of the One Fortum survey in 2017.

Fortum expects its business partners to act responsibly and to comply with the Fortum Code of Conduct and the Fortum Supplier Code of Conduct. Fortum assesses the performance of its business partners with supplier qualification and supplier audits. In 2017, Fortum audited a total of 11 (13) suppliers in China, India, Russia, Slovenia, Estonia and Finland. Most of the non-compliances identified in the audits in 2017 were related to occupational safety, working hours and remuneration.

## Environmental responsibility

Fortum's Group-level environmental targets are related to CO<sub>2</sub> emissions, energy efficiency, and major environmental, health and safety (EHS) incidents. Operational-level activities follow the requirements set forth in the ISO 14001 environmental management standard, and 99.8% (99.9%) of Fortum's power and heat production worldwide has ISO 14001 certification.

Fortum's aim is to promote resource efficiency improvements and the transition towards a more extensive circular economy. In 2017, Fortum received a total of 1.2 million tonnes of non-hazardous waste and 640,000 tonnes of hazardous waste from our customers. As much of the waste stream as possible is recycled, recovered or reused.

Fortum's energy production is primarily based on carbon dioxide-free hydropower and nuclear power and on energy-efficient combined heat and power (CHP). In line with the strategy, Fortum is targeting a gigawatt-scale solar and wind portfolio. Fortum expects the concern about climate change to increase the demand for low-carbon production and energy-efficient solutions and products. Fortum aims to mitigate climate change by investing in CO<sub>2</sub>-free energy production and by improving energy and resource efficiency.

In 2017, Fortum's direct CO<sub>2</sub> emissions were 18.3 (18.6) Mt. Direct CO<sub>2</sub> emissions decreased due to the reduction in condensing power production. Of the total CO<sub>2</sub> emissions, 2.3 (2.7) Mt were within the EU's emissions trading scheme (ETS). The estimate for Fortum's free emission allowances is 1.0 (1.0) Mt.

Fortum's total CO <sub>2</sub> emissions (million tonnes, Mt)	IV/2017	IV/2016	2017	2016
Total emissions	5.2	5.8	18.3	18.6
Emissions subject to ETS	0.6	1.1	2.3	2.7
Free emissions allowances	-	-	1.0	1.0
Emissions in Russia	4.4	4.5	15.4	15.5

Fortum's specific carbon dioxide emissions from total energy production remained at the same level and were 184 (184) g/kWh. The specific CO<sub>2</sub> emissions from total energy production as a five-year average were at 188 (188) g/kWh, which is better than Fortum's Group target of 200 g/kWh.

Fortum has had a Group target to achieve annual energy improvements of more than 1,400 GWh by 2020 compared to 2012. This target was reached (1,502 GWh/a) by the end of 2017.

Fortum uses large volumes of water at various types of power plants and in district heat networks. In most cases, power plants do not consume water – the water is discharged back to the same water system from where it was withdrawn. Fortum withdrew a total of 2,100 (2,100) million m<sup>3</sup> of water in power and heat production; 94% of this amount was used as cooling water.

Fortum's target is fewer than 21 major EHS incidents annually. Major EHS incidents are monitored, reported and investigated, and corrective actions are implemented. In 2017, there were 20 (22) major EHS (environment, health and safety) incidents in Fortum's operations. There were 10 (11) environmental incidents, out of which eight were spills. The major EHS incidents did not have significant environmental impacts.

## Social responsibility

Fortum's social responsibility targets are related to the secure supply of electricity and heat for our customers, operational and occupational safety as well as employee wellbeing.

For Fortum, excellence in safety is the foundation of the company's business and an absolute prerequisite for efficient and interruption-free production. Fortum strives to be a safe workplace for the employees and for the contractors and service providers who work for the company. A certified OHSAS 18001 safety management system covers 98.4% (99.9%) of Fortum's power and heat production worldwide.

2017 was a challenging year in terms of occupational safety. The TRIF for Fortum employees was 1.8 (1.9) per one million working hours, which is better than the target ( $\leq 2.5$ ). The lost-workday injury frequency (LWIF) for own personnel was 1.2 (1.0), and did not meet the set target level ( $\leq 1.0$ ).

The lost workday injury frequency (LWIF) for contractors continues to be Fortum's main challenge. The LWIF for contractors per million working hours was 4.2 (3.0), and Fortum did not achieve the target of  $\leq 3.5$ . The same challenge applies to the combined LWIF (own employees and contractors): the result was 2.4 (1.8), exceeding the target of 1.9.

In 2018, Fortum will implement new tools to assess contractor safety performance as part of the supplier qualification process and will also evaluate their safety practices in a more systematic manner during work. In 2017, as in 2016, there were no accidents leading to a fatality in the company's operations.

ForCare, Fortum's programme for overall wellbeing at work, aims to promote health, safety, employee work capacity and work community functionality. The percentage of sickness-related absences excluding DUON and Hafslund was 2.2 (2.3), which is better than the target level of  $\leq 2.3$ . The percentage of sickness-related absences for Hafslund was 3.0.

An uninterrupted and reliable energy supply is critical for society to function. The energy availability of the company's CHP plants in 2017 was, on average, 96.1%; the target was above 95%.

## Changes in Fortum's Management

On 8 February 2017, Markus Rauramo, Executive Vice President, City Solutions, was appointed Chief Financial Officer of the company as of 1 March 2017 following Timo Karttinen's resignation from his CFO duties. At the same time, Per Langer, Senior Vice President, Technology and New Ventures, was appointed Executive Vice President, City Solutions, also as of 1 March 2017.

On 20 March 2017, Mikael Rönblad, M.Sc. (Econ.), was appointed Executive Vice President, Consumer Solutions, and member of Fortum's Executive Management. Rönblad started in his position on 15 May 2017.

On 31 October 2017, Matti Ruotsala, Deputy CEO, retired from the company.

On 9 November 2017, Fortum announced that Tapio Kuula, member of the Board of Directors and former President and CEO had passed away after a long illness. On 15 November 2017, Fortum's Shareholders' Nomination Board evaluated and confirmed the Board of Directors' ability to function with seven members until the Annual General Meeting 2018.

## Annual General Meeting 2017

Fortum Corporation's Annual General Meeting, which was held in Helsinki on 4 April 2017, adopted the financial statements of the parent company and the Group for the financial period 1 January - 31 December 2016, and discharged the members of Fortum's Board of Directors and the President and CEO from liability for the year 2016.

The Annual General Meeting decided to pay a dividend of EUR 1.10 per share for the financial year that ended on 31 December 2016. The record date for the dividend payment was 6 April 2017, and the dividend payment date was 13 April 2017.



The Annual General Meeting confirmed the remuneration of EUR 75,000 per year to the Chairman, EUR 57,000 per year to the Deputy Chairman, EUR 40,000 per year to each member of the Board, as well as EUR 57,000 per year to the Board member acting as the Chairman of the Audit and Risk Committee if he or she is not at the same time acting as Chairman or Deputy Chairman of the Board. In addition, a EUR 600 meeting fee is paid for Board meetings as well as for committee meetings. The meeting fee is doubled for Board members who live outside Finland in Europe and tripled for members living outside Europe. For Board members living in Finland, the fee for each Board and Board Committee meeting is doubled for meetings held outside Finland and tripled for meetings outside Europe. For Board and Committee meetings held as a telephone conference, the basic meeting fee is paid to all members. No fee is paid for decisions made without a separate meeting.

The Annual General Meeting also confirmed the number of members in the Board of Directors to be eight. Ms Sari Baldauf was re-elected as Chairman, Mr Matti Lievonen was elected as a new member and Deputy Chairman, Mr Heinz-Werner Binzel, Ms Eva Hamilton, Mr Kim Ignatius, Mr Tapio Kuula and Mr Veli-Matti Reinikkala were re-elected as members, and Ms Anja McAlister was elected as a new member.

In addition, Authorised Public Accountant Deloitte & Touche Ltd (Deloitte Ltd as of 1 June 2017) was re-elected as auditor, with Authorised Public Accountant Ms Reeta Virolainen as the principal auditor. The auditor's fee is paid pursuant to an invoice approved by the company.

The Annual General Meeting authorised the Board of Directors to decide on the repurchase and disposal of the company's own shares up to a maximum number of 20,000,000 shares, which corresponds to approximately 2.25 per cent of all the shares in the company. It was also decided that own shares could be repurchased or disposed of in connection with acquisitions, investments or other business transactions, or be retained or cancelled. The repurchases or disposals could not be made for the purposes of the company's incentive and remuneration schemes. The authorisation cancelled the authorisation resolved by the Annual General Meeting of 2016 and it will be effective until the next Annual General Meeting and, in any event, for a period of no longer than 18 months.

At the meeting held after the Annual General Meeting, Fortum's Board of Directors elected from among its members to the Nomination and Remuneration Committee Matti Lievonen as Chairman and Sari Baldauf, Eva Hamilton, and Tapio Kuula as members. Furthermore, the Board elected to the Audit and Risk Committee Kim Ignatius as Chairman and Heinz-Werner Binzel, Anja McAlister and Veli-Matti Reinikkala as members.

### **Shareholders Nomination Board**

On 9 October 2017, Pekka Timonen (Chairman), Director General of the Ministry of Economic Affairs and Employment, Timo Ritakallio, President and CEO, Ilmarinen Mutual Pension Insurance Company, and Elli Aaltonen, Director General, The Social Insurance Institution of Finland KELA, were appointed to Fortum's Shareholders' Nomination Board. In addition, Sari Baldauf, Chairman of Fortum's Board of Directors, is a member of the Shareholders' Nomination Board.

## **Other events during the reporting period**

On 19 December 2017, Fortum announced that the Board of Directors has decided to commence the 2018-2020 long-term incentive (LTI) plan for key employees and executives. The 2018-2020 LTI plan is part of Fortum's ongoing LTI programme and follows the same principles as the previous plan. The performance measures applied to the 2018-2020 LTI plan will be based on cumulative Earnings Per Share over three years and Total Shareholder Return measured relative to the European Utilities Group, both with an equal weight of 50%. The 2018-2020 LTI plan will comprise approximately 110 participants, including the members of Fortum Executive Management. The maximum number of shares that may potentially be delivered as a reward under the 2018-2020 LTI plan, based on the currently prevailing price of Fortum's share, is expected not to exceed 700,000 shares.

## Events after the balance sheet date

On 8 January 2018, E.ON SE announced that it had decided to tender its 170,720,340 Uniper SE shares (corresponding to 46.65% of shares and voting rights) into Fortum's public takeover offer.

On 19 January 2018, Fortum announced that 46.93% of the share capital and the voting rights in Uniper were tendered during the initial acceptance period of Fortum's voluntary public takeover offer for the outstanding shares of Uniper corresponding to 171,736,647 shares. The initial acceptance period ended on 16 January 2018 and the additional acceptance period resumed on 20 January 2018 and will end on 2 February 2018.

On 31 January 2018, Fortum's Shareholders' Nomination Board submitted its proposals to Fortum's Board of Directors for the 2018 Annual General Meeting concerning the number of the Board members, the members to be nominated to the Board of Directors, the election of the Chairman and Deputy Chairman as well as the fees to the Board members.

## Key drivers and risks

Fortum's financial results are exposed to a number of economic, strategic, political, financial and operational risks.

One of the key factors 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, the prices of fuel and CO<sub>2</sub> emission allowances, and the hydrological situation.

The world economy has recently been growing at an increasing pace. The overall economic growth impacts commodity and CO<sub>2</sub> emission allowance prices, which has an effect on the Nordic wholesale price of electricity. In Fortum's Russian business, the key drivers are economic growth, the rouble exchange rate, regulation around the heat business, and the further development of the electricity and capacity markets. In all regions, fuel prices and power plant availability also impact profitability. In addition, increased volatility in exchange rates due to financial turbulence could have both translation and transaction effects on Fortum's financials, especially through the Russian rouble and Swedish krona.

In the Nordic countries, the regulatory and fiscal environment for the energy and environmental management sectors has also added risks for companies. The main strategic risk is that the regulatory and market environment develops in a way that we have not been able to foresee and prepare for. In response to these uncertainties, Fortum has analysed and assessed a number of future energy market and regulation scenarios, including the impact of these on different generation forms and technologies. As a result, Fortum's strategy was renewed in 2016 to include broadening the base of revenues and diversification into new businesses, technologies and markets. The environmental management business is based on the framework and opportunities created by environmental regulation. Being able to respond to customer needs created by the tightening regulation is a key success factor.

## Outlook

### Nordic market

Electricity is expected to continue to gain a higher share of total energy consumption. Electricity demand in the Nordic countries is expected to grow by approximately 0.5% on average, while the growth rate for the next few years will largely be determined by macroeconomic developments in Europe, and especially in the Nordic countries.

The price of oil and coal in 2017, was on a clearly higher level compared to the previous year. The price of CO<sub>2</sub> emission allowances (EUA) also increased during the fourth quarter of 2017. The price of electricity for the upcoming 12 months decreased in the Nordics due to a stronger hydrological balance but increased in Germany due to higher fuel prices.

In late January 2018, the forward quotation for coal (ICE Rotterdam) for the remainder of 2018 was around USD 88 per tonne and the market price for CO<sub>2</sub> emission allowances for 2018 around EUR 8.90 per tonne. The Nordic system electricity forward price at Nasdaq Commodities for the remainder of 2018 was around EUR 27 per MWh and for 2019 around EUR 26 per MWh. In Germany, the electricity forward price for the remainder of 2018 and 2019 was around EUR 35 per MWh. Nordic water reservoirs were about 2 TWh below the long-term average, and were 7 TWh higher than a year earlier.

## Generation

The Generation segment's achieved Nordic power price typically depends on such factors as hedge ratios, hedge prices, spot prices, availability and utilisation of Fortum's flexible production portfolio, and currency fluctuations. Excluding the potential effects from changes in the power generation mix, a 1 EUR/MWh change in the Generation segment's Nordic power sales achieved price will result in an approximately EUR 45 million change in Fortum's annual comparable operating profit. Achieved power price includes also the results of optimization of Fortum's hydro and nuclear production as well as operations in the physical and financial commodity markets.

As a result of the nuclear stress tests in the EU, the Swedish Radiation Safety Authority (SSM) has decided on new regulations for Swedish nuclear reactors. For the operators, this means that safety investments should be in place no later than 2020.

The process to review the Swedish nuclear waste fees is done in a three-year cycle. The Swedish Nuclear Fuel and Waste Management Co (SKB) has updated the new technical plan including earlier shut down of some nuclear plants for the SSM to review. The final decision on the new nuclear waste fees for years 2018-2020 was made by the Swedish Government in December 2017 and was in line with SSM's proposal to the Government. On 25 October 2017, the Swedish Parliament decided on changes in the legal framework impacting calculations of nuclear waste fees and the investment of the nuclear waste fund. In the revised legal framework the assumed operating time for calculating the waste fee is 50 years, as opposed to the previous assumption of 40 years. The fund is now also allowed to invest in other financial instruments in addition to bonds. Based on these changes the annual waste fees for Fortum will increase by approximately EUR 8 million.

On 3 July 2017, Fortum announced the decision by the Administrative Court in Stockholm, Sweden, related to Fortum Sverige AB's hydro production-related real-estate tax assessments for the years 2009–2014. The Court decided in Fortum's favour. The disputed amount for the five years was a total of SEK 510 million (EUR 53 million). Fortum will book the tax income (subject to income tax) only after the legal decision has entered into force. Hydropower plants have been subject to a real-estate tax rate that has resulted in an approximately 12 times higher real-estate tax per kWh compared to any other production, due to different tax rates and different valuation factors. The tax authority has appealed the decision.

In October 2016, the Swedish Energy Agency presented a concrete proposal on how to increase the production of renewable electricity by 18 TWh in 2020-2030 within the electricity certificate system, as part of the Energy Agreement. In April 2017, the Swedish Government decided that the increase will be carried out in a linear manner.

In September 2016, the Swedish Government presented the budget proposal for the coming years. One of the key elements was the proposal that the taxation of different energy production forms should be more equal, and the tax burden of nuclear and hydro should be taken to the level of other production

technologies. The budget states that the nuclear capacity tax will be reduced to 1,500 SEK/MW per month from 1 July 2017 and abolished on 1 January 2018. As a result, the tax for Fortum decreased by EUR 32 million due to the tax decrease and by another EUR 5 million due to the premature closure of Oskarshamn 1 in the middle of the year. In 2017, the capacity tax was EUR 52 million. In 2018, there is no capacity tax. As stated in the Government's budget, the hydropower real-estate tax will decrease from 2.8% to 0.5%; the tax will be reduced in four steps: in January 2017 to 2.2%; in January 2018 to 1.6%; in January 2019 to 1.0%; and in January 2020 to 0.5%. In 2017, the tax for Fortum decreased by EUR 20 million to EUR 95 million. In addition to the decrease in the tax rate, the hydropower real-estate tax values, which are linked to electricity prices, will be updated in 2019. The real-estate tax values are updated every six years. With the current low electricity prices, the tax values in 2019 would be clearly lower than today. The process for renewing existing hydro permits will also be reformed.

In 2015, the Swedish OKG AB decided to permanently discontinue electricity production at Oskarshamn's nuclear plant units 1 and 2. Unit 1 was shut down on 17 June 2017, approximately 2 weeks earlier than planned, and unit 2 has been out of operation since June 2013. The closing processes for both units are estimated to take several years.

## City Solutions

In City Solutions, stable growth, cash flow and earnings are achieved through investments in new plants and through acquisitions. Fuel cost, availability, flexibility and efficiency as well as gate fees are key drivers in profitability, but also the power supply/demand balance, electricity price and the weather affect profitability.

In May 2016, the Finnish Government decided to increase the tax on heating fuels by EUR 90 million annually from 2017 onwards. The negative impact on Fortum is estimated to be approximately EUR 5 million per year.

The development of acquired business operations of Fortum Oslo Varme is estimated to require integration-related one-time costs and increased investments over the coming years. The realisation of cost synergies are estimated to gradually start materialising from 2019 onwards with targeted annual synergies of EUR 5-10 million expected to be achieved by the end of 2020.

## Consumer Solutions

After the acquisition of Hafslund Markets in August, a new business strategy for Consumer Solutions was approved by the Fortum Board of Directors in December. The strategic objective is to establish Consumer Solutions as the leading consumer business in the Nordics, with a customer-centric multi-brand structure.

Competition in the Nordic electricity retail market is expected to remain challenging, with continued pressure on sales margins and increasing customer churn. To counter the market challenges and create a solid foundation for competitive operations, Consumer Solutions will continue its cost spend in developing new digital services for consumers.

The combined Hafslund Markets and Fortum Markets business, while largely complementary, have identified synergy potential, in terms of both revenue and costs. The short-term priority will be on achieving identified revenue synergies by leveraging established best practices and providing additional products and services to the whole customer base. The realisation of cost synergies will start materialising once the integration of Hafslund Markets is completed, expected from 2019, with cost synergy realisation gradually increasing over the coming years, and targeted annual synergies of approximately EUR 10 million to be achieved by the end of 2020.

## Russia

The Russia segment's new capacity generation built after 2007 under the Russian Capacity Supply Agreement (CSA) has been a key driver for earnings growth in Russia, as it receives considerably higher capacity payments than the old capacity. Fortum will receive guaranteed capacity payments for a period of approximately 10 years from the commissioning of a plant. The received CSA payment will vary depending on the age, location, size and type of the plants, as well as on seasonality and availability. CSA payments can vary somewhat annually because they are linked to Russian Government long-term bonds with 8 to 10 years maturity. In addition, the regulator will review the earnings from the electricity-only market three and six years after the commissioning of a unit and could revise the CSA payments accordingly. Furthermore, the level of the CSA payments increases starting from the seventh year of the 10-year period.

In June 2017, 1,000 MW of the bids of the 50/50-owned Fortum-RUSNANO wind investment fund were selected in the Russian wind auction. The bids are for projects to be commissioned during the years 2018-2022 with a price corresponding to approximately EUR 115-135 per MWh. The projects will be covered by CSA for a period of 15 years.

The long-term Competitive Capacity Selection (CCS) for the years 2017-2019 was held at the end of 2015, the CCS for the year 2020 in September 2016, and the CCS for the year 2021 in September 2017. All Fortum plants offered in the auction were selected. Fortum also obtained forced mode status, i.e. it receives payments for the capacity at a higher rate for some of the "old capacity". For the years 2017-2019, forced mode status was obtained for 195 MW; for the year 2020, 175 MW, and for the year 2021, 105 MW.

In December 2017, Fortum acquired three solar power companies from Hevel Group, Russia's largest integrated solar power company. All three power plants are operational and will receive CSA payments for approximately 15 years after commissioning at an average CSA price corresponding to approximately EUR 430/MWh. The plants were commissioned in 2016 and 2017.

Fortum's Ulyanovsk wind farm is listed in the registry of capacity as of January 2018. The 35 MW power plant is Russia's first industrial wind park. It will receive CSA payments for a guaranteed period of 15 years.

The Russian gas price increased by 3.9% in July 2017 and the increase of the annual average gas price for 2017 was 2.0%.

## Capital expenditure and divestments

Fortum currently estimates its capital expenditure, including maintenance but excluding acquisitions, to be in the range of EUR 600-700 million in 2018 most of which is related to hydro and CHP capacity as well as new investments in renewables. The maintenance capital expenditure in 2018 is estimated at approximately EUR 300 million, well below the level of depreciation.

## Taxation

The effective corporate income tax rate for Fortum in 2018 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 a Swedish income tax case.

On 11 May 2017, the Administrative Court in Stockholm, Sweden, gave its decisions related to Fortum's income tax assessments for the year 2013. The Court's decisions were not in Fortum's favour. Fortum has appealed the decisions. If the decisions remain in force despite the appeal, the negative impact on the net profit would be approximately EUR 28 million (approximately SEK 273 million). Fortum has not made a provision for this, as, based on legal analysis, the EU Commission's view and supporting legal opinions,

the cases should be ruled in Fortum's favour. The assessments concern the loans given in 2013 by Fortum's Dutch financing company to Fortum's subsidiaries in Sweden. The interest income for these loans was taxed in the Netherlands. The Swedish tax authority considers just over a half of the interest relating to each loan as deductible, i.e. deriving from business needs. The rest of the interest is seen as non-deductible. The decisions are based on the changes in the Swedish tax regulation in 2013.

On 30 June 2017, the Court of Appeal in Stockholm, Sweden, ruled against Fortum related to Fortum's income tax assessments in Sweden for the years 2009-2012. Due to the decision of the Court of Appeal, Fortum booked a tax cost of 1,175 MSEK (EUR 123 million) in the second-quarter 2017 results. The booking did not have any cash flow effect for Fortum, as the additional taxes and interest have already been paid in 2016. The case concerns Fortum's right to deduct intra-group interest expenses in Sweden in the years 2009-2012. Fortum restructured its operations and reallocated loans in 2004-2005 to secure future operations. Fortum does not agree with the Court's decision and had applied for the right to appeal from the Supreme Administrative Court.

## Hedging

At the end of 2017, approximately 70% of Generation's estimated Nordic power sales volume was hedged at EUR 28 per MWh for 2018, and approximately 40% at EUR 25 per MWh for 2019.

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 electricity derivatives quoted on Nasdaq Commodities.

## Change of Fortum Corporation's trading and issuer codes

As of 25 January 2017, Fortum Corporation changed its trading and issuer codes. The trading code of Fortum Corporation's share changed from FUM1V to FORTUM, and Fortum's issuer code was changed from FUM to FORTUM.

## Dividend distribution proposal

The distributable funds of Fortum Oyj as of 31 December 2017 amounted to EUR 5,170,240,554.04 including the profit of the financial period 2017 of EUR 932,525,770.24. The Company's liquidity is good and according to the Board of Directors the proposed dividend will not compromise the Company's liquidity.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.10 per share be paid for 2017.

Based on the number of registered shares as of 1 February 2018 the total amount of dividend proposed to be paid is EUR 977,203,749,50. The Board of Directors proposes, that the remaining part of the distributable funds be retained in the shareholders' equity.

## Annual General Meeting 2018

Fortum's Annual General Meeting 2018 is planned to take place on 28 March 2018 at 11:00 a.m. EET at the Finlandia Hall, Mannerheimintie 13, Helsinki.

The possible dividend related dates planned for 2018 are:

- Ex-dividend date 29 March 2018
- Record date for dividend payment 3 April 2018
- Dividend payment date 10 April 2018

Espoo, 1 February 2018

Fortum Corporation  
Board of Directors

**Further information:**

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The Board of Directors has approved Fortum's 2017 Financial Statements and Fortum's auditors have issued their unqualified Audit Report for 2017 on 1 February 2018. The Financial Statements Bulletin has been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the EU.

**Financial calendar in 2018**

Fortum's Financial Statements and Operating and Financial Review for 2017 will be published during week 8 at the latest.

Fortum will publish three interim reports in 2018:

- January-March on 26 April 2018, at approximately 9:00 EEST
- January-June on 19 July 2018, at approximately 9:00 EEST
- January-September on 24 October 2018, at approximately 9:00 EEST

Fortum's Capital Markets Day will be held on 13 November 2018 at Fortum's new headquarters in Espoo, Finland.

**Distribution:**

Nasdaq Helsinki  
Key media  
[www.fortum.com](http://www.fortum.com)

More information, including detailed quarterly information, is available on Fortum's website at [www.fortum.com/investors](http://www.fortum.com/investors)

**Fortum Corporation**  
**January-December 2017**

The Interim Statement is based on the audited 2017 Financial Statements approved by the Board of Directors on 1 February 2018

**Condensed consolidated income statement**

EUR million	Note	Q4 2017	Q4 2016	2017	2016
Sales	4, 7	1,432	1,143	4,520	3,632
Other income		29	7	55	34
Materials and services		-747	-600	-2,301	-1,830
Employee benefits		-122	-99	-423	-334
Depreciation and amortisation	4,10,11	-128	-110	-464	-373
Other expenses		-168	-153	-576	-485
<b>Comparable operating profit</b>	<b>4</b>	<b>295</b>	<b>188</b>	<b>811</b>	<b>644</b>
Items affecting comparability		20	14	347	-11
<b>Operating profit</b>	<b>4</b>	<b>315</b>	<b>202</b>	<b>1,158</b>	<b>633</b>
Share of profit/loss of associates and joint ventures	4, 12	34	15	148	131
Interest expense		-42	-37	-164	-169
Interest income		6	7	32	30
Fair value gains and losses on financial instruments		-2	-2	-12	-2
Other financial expenses - net		-10	-2	-50	-29
Finance costs - net		-49	-34	-195	-169
<b>Profit before income tax</b>		<b>300</b>	<b>184</b>	<b>1,111</b>	<b>595</b>
Income tax expense	8	-43	-37	-229	-90
<b>Profit for the period</b>		<b>257</b>	<b>147</b>	<b>882</b>	<b>504</b>
<b>Attributable to:</b>					
Owners of the parent		244	145	866	496
Non-controlling interests		12	3	16	8
		<b>257</b>	<b>147</b>	<b>882</b>	<b>504</b>
<b>Earnings per share for profit attributable to the equity owners of the company (EUR per share)</b>					
Basic		<b>0.28</b>	0.16	<b>0.98</b>	0.56

As Fortum currently has no dilutive instruments outstanding, diluted earnings per share is the same as basic earnings per share.

EUR million	Note	Q4 2017	Q4 2016	2017	2016
<b>Comparable operating profit</b>		<b>295</b>	<b>188</b>	<b>811</b>	<b>644</b>
Impairment charges	4	6	27	6	27
Capital gains and other	4, 6	8	2	326	38
Changes in fair values of derivatives hedging future cash flow	4	5	-1	14	-65
Nuclear fund adjustment	4, 15	1	-14	1	-11
Items affecting comparability		20	14	347	-11
<b>Operating profit</b>		<b>315</b>	<b>202</b>	<b>1,158</b>	<b>633</b>



## Condensed consolidated statement of comprehensive income

EUR million	Q4 2017	Q4 2016	2017	2016
<b>Profit for the period</b>	<b>257</b>	<b>147</b>	<b>882</b>	<b>504</b>
<b>Other comprehensive income</b>				
<b>Items that may be reclassified to profit or loss in subsequent periods:</b>				
Cash flow hedges				
Fair value gains/losses in the period	0	-43	22	-142
Transfers to income statement	18	-9	76	-85
Transfers to inventory/fixed assets	0	-1	-4	-10
Deferred taxes	-3	11	-19	51
Net investment hedges				
Fair value gains/losses in the period	24	-36	23	-2
Deferred taxes	-5	7	-5	0
Exchange differences on translating foreign operations	-169	263	-372	342
Share of other comprehensive income of associates and joint ventures	1	3	-10	-9
Other changes	9	1	-2	0
	<b>-127</b>	<b>196</b>	<b>-291</b>	<b>145</b>
<b>Items that will not be reclassified to profit or loss in subsequent periods:</b>				
Actuarial gains/losses on defined benefit plans	-26	16	-13	-7
Actuarial gains/losses on defined benefit plans in associates and joint ventures	-6	5	6	12
	<b>-32</b>	<b>21</b>	<b>-7</b>	<b>5</b>
<b>Other comprehensive income for the period, net of deferred taxes</b>	<b>-158</b>	<b>217</b>	<b>-298</b>	<b>150</b>
<b>Total comprehensive income for the period</b>	<b>98</b>	<b>365</b>	<b>584</b>	<b>654</b>
<b>Total comprehensive income attributable to</b>				
Owners of the parent	87	359	571	639
Non-controlling interests	12	6	13	15
	<b>98</b>	<b>365</b>	<b>584</b>	<b>654</b>

## Condensed consolidated balance sheet

EUR million	Note	Dec 31 2017	Dec 31 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	10	1,064	467
Property, plant and equipment	11	10,510	9,930
Participations in associates and joint ventures	4, 12	1,900	2,112
Share in State Nuclear Waste Management Fund	15	858	830
Other non-current assets		140	113
Deferred tax assets		73	66
Derivative financial instruments	5	281	415
Long-term interest-bearing receivables	13	1,010	985
<b>Total non-current assets</b>		<b>15,835</b>	<b>14,918</b>
<b>Current assets</b>			
Inventories		216	233
Derivative financial instruments	5	240	130
Short-term interest-bearing receivables	13	395	395
Income tax receivables		172	290
Trade and other receivables		997	844
Deposits and securities (maturity over three months)		715	3,475
Cash and cash equivalents		3,182	1,679
Liquid funds	14	3,897	5,155
<b>Total current assets</b>		<b>5,918</b>	<b>7,046</b>
<b>Total assets</b>		<b>21,753</b>	<b>21,964</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital		3,046	3,046
Share premium		73	73
Retained earnings		9,875	10,369
Other equity components		54	-29
<b>Total</b>		<b>13,048</b>	<b>13,459</b>
<b>Non-controlling interests</b>		<b>239</b>	<b>84</b>
<b>Total equity</b>		<b>13,287</b>	<b>13,542</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing liabilities	14	4,119	4,468
Derivative financial instruments	5	214	262
Deferred tax liabilities		819	616
Nuclear provisions	15	858	830
Other provisions	16	100	116
Pension obligations		102	76
Other non-current liabilities		175	179
<b>Total non-current liabilities</b>		<b>6,388</b>	<b>6,546</b>
<b>Current liabilities</b>			
Interest-bearing liabilities	14	766	639
Derivative financial instruments	5	200	396
Trade and other payables		1,112	841
<b>Total current liabilities</b>		<b>2,078</b>	<b>1,876</b>
<b>Total liabilities</b>		<b>8,466</b>	<b>8,422</b>
<b>Total equity and liabilities</b>		<b>21,753</b>	<b>21,964</b>

## Condensed consolidated statement of changes in total equity

EUR million	Share capital	Share premium	Retained earnings		Other equity components			Owners of the parent	Non-controlling interests	Total equity
			Retained earnings	Translation of foreign operations	Cash flow hedges	Other OCI items	OCI items associated companies and joint ventures			
<b>Total equity 31 December 2016</b>	<b>3,046</b>	<b>73</b>	<b>12,186</b>	<b>-1,817</b>	<b>-115</b>	<b>58</b>	<b>27</b>	<b>13,459</b>	<b>84</b>	<b>13,542</b>
Net profit for the period			866					866	16	882
Translation differences				-369	1	1	-1	-369	-3	-372
Other comprehensive income			-9		74	11	-2	73	0	74
Total comprehensive income for the period			857	-369	75	11	-3	571	13	584
Cash dividend			-977					-977	-2	-979
Other			-4					-4	145	141
<b>Total equity 31 December 2017</b>	<b>3,046</b>	<b>73</b>	<b>12,062</b>	<b>-2,187</b>	<b>-40</b>	<b>70</b>	<b>24</b>	<b>13,048</b>	<b>239</b>	<b>13,287</b>
<b>Total equity 31 December 2015</b>	<b>3,046</b>	<b>73</b>	<b>12,663</b>	<b>-2,156</b>	<b>74</b>	<b>67</b>	<b>27</b>	<b>13,794</b>	<b>69</b>	<b>13,863</b>
Net profit for the period			496					496	8	504
Translation differences				339	-2	1	-3	335	7	342
Other comprehensive income			1		-186	-10	3	-192		-192
Total comprehensive income for the period			497	339	-188	-9	0	639	15	654
Cash dividend			-977					-977		-977
Other			3					3	-1	2
<b>Total equity 31 December 2016</b>	<b>3,046</b>	<b>73</b>	<b>12,186</b>	<b>-1,817</b>	<b>-115</b>	<b>58</b>	<b>27</b>	<b>13,459</b>	<b>84</b>	<b>13,542</b>

### Translation differences

Translation differences impacted equity attributable to owners of the parent company with EUR -369 million during 2017 (2016: 335). Translation differences are mainly related to RUB and SEK. Part of this translation exposure has been hedged and the foreign currency hedge result amounting to EUR 28 million during 2017 (2016: 5), is included in the other OCI items.

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. For information regarding exchange rates used, see Note 2 Accounting policies.

### Cash flow hedges

The impact on equity attributable to owners of the parent from fair valuation of cash flow hedges, EUR 75 million during 2017 (2016: -188), mainly relates to cash flow hedges hedging electricity price for future transactions, where hedge accounting is applied. When electricity price is lower/higher than the hedging price, the impact on equity is positive/negative.

### Cash dividends

A dividend for 2016 was decided in the Annual General Meeting on 4 April 2017. See Note 9 Dividend per share.

### Non-controlling interests

Non-controlling interests have increased with EUR 155 million during 2017 mainly due to the acquisition of Fortum Oslo Varme AS which is consolidated as a subsidiary with 50% non-controlling interest. See also Note 6 Acquisitions and disposals.

## Condensed consolidated cash flow statement

EUR million	Note	Q4 2017	Q4 2016	2017	2016
<b>Cash flow from operating activities</b>					
<b>Profit for the period</b>		<b>257</b>	<b>147</b>	<b>882</b>	<b>504</b>
<b>Adjustments:</b>					
Income tax expenses	8	43	37	229	90
Finance costs - net		49	34	195	169
Share of profit of associates and joint ventures	12	-34	-15	-148	-131
Depreciation and amortisation	10, 11	128	110	464	373
<b>Operating profit before depreciations (EBITDA)</b>		<b>444</b>	<b>312</b>	<b>1,623</b>	<b>1,006</b>
Items affecting comparability	4	-20	-14	-347	11
Net release of CSA provision	4	0	0	0	-2
<b>Comparable EBITDA</b>		<b>424</b>	<b>298</b>	<b>1,275</b>	<b>1,015</b>
Non-cash flow items		-21	12	-76	-49
Interest received		7	8	35	39
Interest paid		-38	-26	-187	-214
Dividends received		0	0	58	54
Realised foreign exchange gains and losses		-12	-2	-83	110
Income taxes paid		-11	-5	-83	-216
Other items		-8	0	-28	-18
<b>Funds from operations</b>		<b>340</b>	<b>286</b>	<b>912</b>	<b>723</b>
Change in working capital		-45	-136	81	-102
<b>Total net cash from operating activities</b>		<b>295</b>	<b>150</b>	<b>993</b>	<b>621</b>
<b>Cash flow from investing activities</b>					
Capital expenditures	10, 11	-187	-232	-657	-599
Acquisitions of shares	6	-44	-29	-972	-695
Proceeds from sales of fixed assets	10, 11	1	3	8	10
Divestments of shares	6	1	0	741	39
Shareholder loans to associated companies and joint ventures	13	7	-43	43	-117
Change in cash collaterals	13	21	34	-3	-359
Change in other interest-bearing receivables	13	5	4	34	20
<b>Total net cash from investing activities</b>		<b>-195</b>	<b>-263</b>	<b>-807</b>	<b>-1,701</b>
<b>Cash flow before financing activities</b>					
		<b>99</b>	<b>-113</b>	<b>187</b>	<b>-1,080</b>
<b>Cash flow from financing activities</b>					
Proceeds from long-term liabilities	14	0	5	35	32
Payments of long-term liabilities	14	-76	-35	-543	-934
Change in short-term liabilities	14	0	-34	68	-97
Dividends paid to the owners of the parent	9	0	0	-977	-977
Other financing items		-4	0	-12	-8
<b>Total net cash used in financing activities</b>		<b>-80</b>	<b>-64</b>	<b>-1,428</b>	<b>-1,984</b>
<b>Total net increase(+)/decrease(-) in liquid funds</b>		<b>19</b>	<b>-177</b>	<b>-1,241</b>	<b>-3,064</b>
<b>Liquid funds at the beginning of the period</b>	14	<b>3,877</b>	<b>5,322</b>	<b>5,155</b>	<b>8,202</b>
<b>Foreign exchange differences in liquid funds</b>		<b>1</b>	<b>9</b>	<b>-16</b>	<b>18</b>
<b>Liquid funds at the end of the period</b>	14	<b>3,897</b>	<b>5,155</b>	<b>3,897</b>	<b>5,155</b>

### Realised foreign exchange gains and losses

Realised foreign exchange gains and losses relate mainly to financing of Fortum's Russian and Swedish subsidiaries and the fact that the Group's main external financing currency is EUR. The foreign exchange gains and losses arise from rollover of foreign exchange contracts hedging these internal loans as major part of the forwards are entered into with short maturities i.e. less than twelve months.

## Additional cash flow information

### Change in working capital

EUR million	Q4 2017	Q4 2016	2017	2016
Change in settlements for futures, decrease(+)/increase(-)	17	-82	141	-138
Change in interest-free receivables, decrease(+)/increase(-)	-263	-233	-94	92
Change in inventories, decrease(+)/increase(-)	17	11	19	14
Change in interest-free liabilities, decrease(-)/increase(+)	183	168	15	-70
<b>Total</b>	<b>-45</b>	<b>-136</b>	<b>81</b>	<b>-102</b>

In Fortum's cash flow statement the daily cash settlements for futures are shown as change in working capital whereas the changes in cash collaterals for forwards are included in cash flow from investing activities. In the end of 2016 Nasdaq's market making for forwards ended and the trading moved from forwards with cash collaterals to futures with daily cash settlements. The cash collaterals are included in the short-term interest-bearing receivables, see note 13.

### Capital expenditure in cash flow

EUR million	Q4 2017	Q4 2016	2017	2016
Capital expenditure	208	235	690	591
Change in not yet paid investments, decrease(+)/increase(-)	-17	3	-17	24
Capitalised borrowing costs	-4	-6	-16	-16
<b>Total</b>	<b>187</b>	<b>232</b>	<b>657</b>	<b>599</b>

Capital expenditures for intangible assets and property, plant and equipment were in 2017 EUR 690 million (2016: 591). Capital expenditure in cash flow in 2017 EUR 657 million (2016: 599) is including payments related to capital expenditure made in previous year i.e. change in trade payables related to investments EUR -17 million (2016: 24) and excluding capitalised borrowing costs EUR -16 million (2016: -16), which are presented in interest paid.

### Acquisition of shares in cash flow

Acquisition of shares, net of cash acquired, amounted to EUR 972 million during 2017 (2016: 695). Acquisition of shares during 2017 include mainly the acquisition of subsidiary shares in Hafslund Markets AS and Hafslund Varme AS (renamed as Fortum Oslo Varme AS) including the City of Oslo's waste-to-energy company Klemetsrudanlegget AS (renamed as Fortum Oslo Varme KEA), as well as associated company shares in Hafslund Produksjon Holding AS. Acquisition of shares during Q4 2017, EUR 44 million (Q4 2016: 29), include the acquisition of Russian solar power companies and investments to the wind investment fund owned 50/50 by Fortum and RUSNANO. For further information see note 6 Acquisitions and disposals.

### Divestment of shares in cash flow

EUR million	Q4 2017	Q4 2016	2017	2016
Proceeds from sales of subsidiaries, net of cash disposed	1	0	54	6
Proceeds from sales of associates and joint ventures	0	0	687	34
<b>Total</b>	<b>1</b>	<b>0</b>	<b>741</b>	<b>39</b>

Proceeds from sales of subsidiaries during 2017 include mainly the sale of the Polish gas infrastructure company DUON Dystrybucja S.A. that was acquired as part of the acquisition of the electricity and gas sales company Grupa DUON S.A. (currently Fortum Markets Polska S.A.) in 2016. Proceeds from sales of associated companies and joint ventures during 2017 include the sale of Fortum's 34.1% stake in Hafslund ASA. For further information see note 6 Acquisitions and disposals.

## Change in net debt

EUR million	Q4 2017	Q4 2016	2017	2016
<b>Net debt, beginning of the period</b>	<b>1,075</b>	<b>-137</b>	<b>-48</b>	<b>-2,195</b>
Foreign exchange rate differences	-12	0	-15	-70
Comparable EBITDA	424	298	1,275	1,015
Non-cash flow items	-21	12	-76	-49
Paid net financial costs	-46	-20	-199	-29
Income taxes paid	-11	-5	-83	-216
Change in working capital	-45	-136	81	-102
Capital expenditures	-187	-232	-657	-599
Acquisitions	-44	-29	-972	-695
Divestments	2	3	749	49
Shareholder loans to associated companies	7	-43	43	-117
Change in other interest-bearing receivables	26	38	31	-340
Dividends	0	0	-977	-977
Other financing activities	-9	0	-17	-8
Net cash flow (- increase in net debt)	95	-113	-802	-2,065
Fair value change of bonds, amortised cost valuation, acquired debt and other	20	-23	248	152
<b>Net debt, end of the period</b>	<b>988</b>	<b>-48</b>	<b>988</b>	<b>-48</b>

## Capital structure

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 minus liquid funds without deducting interest-bearing receivables amounting to EUR 1,406 million (Dec 31 2016: 1,380). EBITDA is calculated by adding back depreciation and amortisation to operating profit, whereas Comparable EBITDA is calculated by deducting items affecting comparability and the net release of CSA provision from EBITDA. Fortum's comparable net debt to EBITDA target is around 2.5x.

## Comparable Net debt/EBITDA ratio

EUR million	2017	2016
Interest-bearing liabilities	4,885	5,107
Less: Liquid funds	3,897	5,155
<b>Net debt</b>	<b>988</b>	<b>-48</b>
Operating profit	1,158	633
Add: Depreciation and amortisation	464	373
<b>EBITDA</b>	<b>1,623</b>	<b>1,006</b>
Less: Items affecting comparability	347	-11
Less: Net release of CSA provision		2
<b>Comparable EBITDA</b>	<b>1,275</b>	<b>1,015</b>
<b>Comparable net debt/EBITDA</b>	<b>0.8</b>	<b>0.0</b>

## Key ratios

Definition of key figures are presented in Note 23.

	Dec 31 2017	Dec 31 2016
Comparable EBITDA, EUR million	1,275	1,015
Earnings per share (basic), EUR	0.98	0.56
Capital employed, EUR million	18,172	18,649
Interest-bearing net debt, EUR million	988	-48
Capital expenditure and gross investments in shares, EUR million	1,815	1,435
Capital expenditure, EUR million	690	591
Return on capital employed, %	7.1	4.0
Return on shareholders' equity, %	6.6	3.7
Comparable net debt / EBITDA	0.8	0.0
Interest coverage	8.7	4.6
Interest coverage including capitalised borrowing costs	7.8	4.1
Funds from operations/interest-bearing net debt, %	83.9	-1,503.4
Gearing, %	7	0
Equity per share, EUR	14.69	15.15
Equity-to-assets ratio, %	61	62
Number of employees	8,785	8,108
Average number of employees	8,507	7,994
Average number of shares, 1 000 shares	888,367	888,367
Diluted adjusted average number of shares, 1 000 shares	888,367	888,367
Number of registered shares, 1 000 shares	888,367	888,367

## Notes to the condensed consolidated interim financial statements

### 1. Basis of preparation

The condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the EU. The condensed interim financial report should be read in conjunction with the consolidated financial statements for the year ended 31 December 2016.

The figures in the consolidated interim financial statements have been rounded and consequently the sum of individual figures may deviate from the sum presented. Key figures have been calculated using exact figures.

### 2. Accounting policies

The same accounting policies and presentation have been followed in these condensed interim financial statements as were applied in the preparation of the consolidated financial statements for the year ended 31 December 2016.

Fortum will adopt two new IFRS standards in 2018 (IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers) and one in 2019 (IFRS 16 Leases).

#### IFRS 9 Financial instruments

Fortum is finalising the implementation and testing phase including model validations, process and system updates and preparation of the new disclosures including possible opening balance sheet adjustments.

The interpretations taken are:

- Classification and measurement of financial assets - Most financial assets will be classified under "Held-to-Collect" business model and accounted for as amortised cost when they meet the SPPI criteria. TVO shareholder loan meets the criteria for equity investment and it will be reclassified.
- Fortum's commodity derivative hedging will benefit from the possibility to apply hedge accounting for one or several risk components separately or in aggregation. In the Nordic area Fortum considers system and electricity price area differential (EPAD) products perfect hedges for corresponding electricity price risk components. This will reduce the volatility in Fortum's profit and loss currently recognized as items affecting comparability. Vast majority of the non-hedge accounted electricity derivatives in December will qualify for hedge accounting under IFRS 9.
- Implementation of expected credit loss ("ECL") model is completed. Fortum has implemented counterparty specific ECL models to be used on individual contract basis for deposits, shareholder loans and trade receivables with large customers whereas portfolio models will be used for trade receivables with consumers and small business customers. Fortum has prepared analysis based on historical data, which indicates no material impacts. Actual impacts will fluctuate due to seasonality of the business.

Further details on the impact will be disclosed in the Q1/2018 interim report. Fortum will use the transition relief for not to restate the comparative information at the date of initial application.

#### IFRS 15 Revenue from Contracts with Customers

Fortum has completed the analysis of the significant business areas and has not identified any material changes from IFRS 15 implementation.

Analysis includes the following main steps:

- Identification and assessment of the main revenue streams,
- Determining key areas of potential differences between old and new revenue recognition principles and
- Reviewing a sample of contracts.

The conclusions requiring the greatest degree of management judgement are as follows:

- Electricity sales to wholesale market: Physical electricity trades to Nord Pool or other wholesale markets are made either during the same day or day before the delivery and the duration of the contract is thus very short. The transaction price is the spot price and there are no variable elements. Electricity sales continue to be recognized upon delivery and hence there are no changes identified compared to the current recognition principles.
- District heating: In many areas the district heating service covers both the distribution and sale of heat. Even if heat is produced by a third party, Fortum is usually responsible for delivering the whole service and is acting as a principal for the heat sales as well. Fortum has concluded that the distribution and sale of heat are not separate performance obligations and are both covered by the promise to stand-ready to supply heat to the customer. Also the fees charged for connecting the end customer to the district heat network are part of the same performance obligation. The fees charged from the customer generally comprise a fixed monthly charge and a variable component that is determined based on the volume of heat supplied. In accordance to the IFRS15 principles, the fixed charge and the variable heat volume charge are allocated and recognised in line with the fees chargeable from the customer. In Russia, Baltics and Poland there are also areas, where Fortum operates only the heat production facilities while some third party is responsible for the distribution of heat. In these areas the performance obligation is to supply heat. There are no changes identified compared to the current revenue recognition principles.
- Waste management services: Majority of the revenues from waste management services arises from the fees charged for receiving the waste from customers (i.e. gate fees). The fee is usually determined based on the volume of waste received and there are no variable elements in the pricing. Fortum is required to treat the waste and this performance obligation is satisfied when the treatment is performed. Transportation of the waste form another performance obligation, which is recognized once the service is performed. There are no changes identified to the current practices.



- Electricity sales to retail customers: Fortum's contracts with the consumer and business customers cover the electricity sales, while the distribution service is delivered by the transmission company operating the local network. There is only one performance obligation, which is to stand-ready to supply electricity to the customer. The transaction price generally includes both a fixed monthly fee and a variable fee that depends on the volume of electricity supplied. As with the district heating business, the fixed and variable components are to be recognized as revenue based on the fees chargeable from the customer.

IFRS 15 will change the treatment of sales commission costs for obtaining new customers, which are currently mostly expensed. In the future the sales commissions shall be capitalized as intangible assets and depreciated over the expected contract term. Implementation of IFRS15 will thus impact the timing and classification of expenses, but the impact to Fortum Comparable operating profit is not expected to be material.

Further details on the impact will be disclosed in the Q1/2018 interim report. Fortum will use the transition relief for not to restate the comparative information at the date of initial application.

#### IFRS 16 Leases

Currently under IAS 17, lessees recognize leases either as operating leases or finance leases. The new standard no longer distinguishes between operating and finance leases from a lessees point of view, and most right-of-use assets are recognized in the balance sheet. For lessors, there are no significant changes. In brief, IFRS 16 requirements contain the following:

- A lessee shall recognize all leases, except for short-term and low value leases, in the balance sheet.
- For lessees, both the value of the right-of-use asset and the corresponding liability shall be recognized in the balance sheet.

IFRS 16 is effective for financial periods starting on 1 January 2019 or later. The European Union endorsed the use of the standard on 31 October 2017.

Currently, Fortum has mainly operating leases with varying lease terms and prolongation rights. The majority of the operating leases are for the use of land and office buildings. Total future lease obligations amounted to EUR 160 million at the end of the reporting period (Dec 31 2016: 74). Hence, the impacts of the standard to the consolidated financial statements are not expected to be material.

The IFRS 16 analysis is on-going and will be completed during 2018. Analysis include:

- Reviewing current lease contracts reported as operating lease commitments
- Going through supplier lists and identifying potential lease arrangements
- Determining incremental borrowing rates
- Calculation of accounting impacts.

No major issues have been identified so far. Fortum plans to apply the modified retrospective method, which means the comparative figures will not be restated.

#### The key exchange rates applied in the Fortum Group accounts

The balance sheet date rate is based on exchange rate published by the European Central Bank for the closing date. The average exchange rate is calculated as an average of each months ending rate from the European Central Bank during the year and ending rate previous year. Key exchange rates for Fortum Group applied in the accounts:

Average rate	Jan-Dec 2017	Jan-Sept 2017	Jan-June 2017	Jan-March 2017	Jan-Dec 2016	Jan-Sept 2016	Jan-June 2016	Jan-March 2016
Sweden (SEK)	9.6392	9.5803	9.5900	9.5257	9.4496	9.3673	9.2813	9.2713
Norway (NOK)	9.3497	9.2343	9.1923	9.0030	9.2888	9.3614	9.4060	9.5016
Poland (PLN)	4.2556	4.2707	4.2707	4.3189	4.3659	4.3570	4.3621	4.3289
Russia (RUB)	66.0349	65.1995	63.4507	62.6996	73.8756	75.8412	77.2497	80.6173

  

Balance sheet date rate	Dec 31 2017	Sept 30 2017	June 30 2017	March 31 2017	Dec 31 2016	Sept 30 2016	June 30 2016	March 31 2016
Sweden (SEK)	9.8438	9.6490	9.6398	9.5322	9.5525	9.6210	9.4242	9.2253
Norway (NOK)	9.8403	9.4125	9.5713	9.1683	9.0863	8.9865	9.3008	9.4145
Poland (PLN)	4.1770	4.3042	4.2259	4.2265	4.4103	4.3192	4.4362	4.2576
Russia (RUB)	69.3920	68.2519	67.5449	60.3130	64.3000	70.5140	71.5200	76.3051

### 3. Critical accounting estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. Provisions for present obligations require management to assess the best estimate of the expenditure needed to settle the present obligation at the end of the reporting period.

In preparing these interim financial statements, the significant judgements made by management applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

### 4. Segment information

As of 1 March 2017, the City Solutions division was divided into two divisions: City Solutions and Consumer Solutions, both reported as separate reporting segments. City Solutions comprises heating and cooling, waste-to-energy, biomass and other circular economy solutions. Consumer Solutions comprises electricity sales in the Nordics, electricity and gas sales in Poland, as well as Nordic customer services (previously reported under the Other segment).

The new organisation consists of the following segments: Generation, City Solutions, Consumer Solutions, Russia and Other. M&A and Solar & Wind Development as well as Technology and New Ventures will continue to be reported under Other.

Fortum has restated its 2016 comparison segment reporting figures in accordance with the new organisation structure. The restated and previously communicated quarterly information for 2016 were published on 11 April 2017 and can be found in the Interim reports section in Fortum's webpage.

Quarter	Note	Generation <sup>1)</sup>		City Solutions <sup>1)</sup>		Consumer Solutions		Russia		Other		Total	
		Q4 2017	Q4 2016	Q4 2017	Q4 2016	Q4 2017	Q4 2016	Q4 2017	Q4 2016	Q4 2017	Q4 2016	Q4 2017	Q4 2016
<b>Income statement data by segment</b>													
External sales		431	440	330	315	451	220	314	289	10	8	1,536	1,272
Internal sales		3	-5	11	2	2	1	0	0	19	16	34	13
Netting of Nord Pool transactions <sup>2)</sup>												-103	-129
Eliminations <sup>2)</sup>												-34	-13
<b>Sales</b>	7	<b>433</b>	<b>435</b>	<b>340</b>	<b>316</b>	<b>453</b>	<b>221</b>	<b>314</b>	<b>289</b>	<b>30</b>	<b>24</b>	<b>1,432</b>	<b>1,143</b>
<b>Comparable EBITDA</b>		<b>191</b>	<b>116</b>	<b>110</b>	<b>90</b>	<b>25</b>	<b>15</b>	<b>121</b>	<b>100</b>	<b>-23</b>	<b>-24</b>	<b>424</b>	<b>298</b>
Net release of CSA provision								0	0			0	0
Depreciation and amortisation		-31	-30	-48	-41	-7	-2	-37	-34	-5	-4	-128	-110
<b>Comparable operating profit</b>		<b>160</b>	<b>87</b>	<b>61</b>	<b>50</b>	<b>18</b>	<b>13</b>	<b>84</b>	<b>66</b>	<b>-28</b>	<b>-27</b>	<b>295</b>	<b>188</b>
Impairment charges		6	27	0	0	0	0	0	0	0	0	6	27
Capital gains and other	6	0	0	0	-1	0	0	0	1	7	2	8	2
Changes in fair values of derivatives hedging future cash-flow		-4	-23	3	14	7	9	0	0	0	-1	5	-1
Nuclear fund adjustment	15	1	-14	0	0	0	0	0	0	0	0	1	-14
Items affecting comparability		2	-10	3	13	7	9	0	1	7	1	20	14
<b>Operating profit</b>		<b>163</b>	<b>77</b>	<b>64</b>	<b>62</b>	<b>25</b>	<b>22</b>	<b>85</b>	<b>67</b>	<b>-21</b>	<b>-26</b>	<b>315</b>	<b>202</b>
Share of profit/loss of associates and joint ventures	12	1	-25	31	27	0	0	4	4	-1	10	34	15
Finance costs - net												-49	-34
Income taxes	8											-43	-37
<b>Profit for the period</b>												<b>257</b>	<b>147</b>

**Gross investments / divestments by segment**

Gross investments in shares	6	2	2	1	13	0	0	120	0	0	14	123	29
Capital expenditure	10, 11	53	78	68	42	3	2	47	67	36	46	208	235
of which capitalised borrowing costs		1	3	1	0	0	0	0	2	2	1	4	6
Gross divestments of shares	6	0	0	0	0	1	0	0	3	0	0	1	3

1) Sales, both internal and external, include effects from realised hedging contracts. Effect on sales can be negative or positive depending on the average contract price and realised spot price.

2) Netting and eliminations include eliminations of internal sales and netting of Nord Pool transactions. 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.

Year-to-date	Note	Generation <sup>1)</sup>		City Solutions <sup>1)</sup>		Consumer Solutions		Russia		Other		Total	
		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Income statement data by segment</b>													
External sales		1,662	1,643	996	780	1,094	666	1,101	896	35	31	4,888	4,016
Internal sales		15	15	19	1	3	2	0	0	67	61	103	79
Netting of Nord Pool transactions <sup>2)</sup>												-367	-384
Eliminations <sup>2)</sup>												-103	-79
<b>Sales</b>	7	<b>1,677</b>	<b>1,657</b>	<b>1,015</b>	<b>782</b>	<b>1,097</b>	<b>668</b>	<b>1,101</b>	<b>896</b>	<b>102</b>	<b>92</b>	<b>4,520</b>	<b>3,632</b>
<b>Comparable EBITDA</b>		<b>603</b>	<b>527</b>	<b>262</b>	<b>186</b>	<b>57</b>	<b>55</b>	<b>438</b>	<b>312</b>	<b>-83</b>	<b>-64</b>	<b>1,275</b>	<b>1,015</b>
Net release of CSA provision								0	2			0	2
Depreciation and amortisation		-125	-110	-163	-121	-16	-7	-142	-123	-18	-13	-464	-373
<b>Comparable operating profit</b>		<b>478</b>	<b>417</b>	<b>98</b>	<b>64</b>	<b>41</b>	<b>48</b>	<b>296</b>	<b>191</b>	<b>-102</b>	<b>-77</b>	<b>811</b>	<b>644</b>
Impairment charges		6	27	0	0	0	0	0	0	0	0	6	27
Capital gains and other	6	1	1	1	0	2	0	0	35	322	2	326	38
Changes in fair values of derivatives hedging future cash-flow		15	-96	3	22	-4	11	0	0	0	-2	14	-65
Nuclear fund adjustment	15	1	-11	0	0	0	0	0	0	0	0	1	-11
Items affecting comparability		23	-79	4	22	-2	11	0	35	322	0	347	-11
<b>Operating profit</b>		<b>501</b>	<b>338</b>	<b>102</b>	<b>86</b>	<b>39</b>	<b>59</b>	<b>295</b>	<b>226</b>	<b>221</b>	<b>-77</b>	<b>1,158</b>	<b>633</b>
Share of profit/loss of associates and joint ventures	12	-1	-34	80	76	0	0	31	38	38	51	148	131
Finance costs - net												-195	-169
Income taxes	8											-229	-90
<b>Profit for the period</b>												<b>882</b>	<b>504</b>

**Gross investments / divestments by segment**

Gross investments in shares	6	90	7	386	698	486	117	125	0	39	22	1,125	844
Capital expenditure	10, 11	174	196	170	109	7	3	152	201	187	83	690	591
of which capitalised borrowing costs		3	3	2	1	0	0	7	10	4	2	16	16
Gross divestments of shares	6	0	0	0	33	55	1	0	127	687	0	742	161

1) Sales, both internal and external, include effects from realised hedging contracts. Effect on sales can be negative or positive depending on the average contract price and realised spot price.

2) Netting and eliminations include eliminations of internal sales and netting of Nord Pool transactions. 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.

### Segment assets and liabilities

EUR million	Note	Generation		City Solutions		Consumer Solutions		Russia		Other		Total	
		Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
<b>Non-interest bearing assets</b>		<b>6,097</b>	<b>6,206</b>	<b>3,517</b>	<b>2,672</b>	<b>923</b>	<b>348</b>	<b>2,812</b>	<b>2,967</b>	<b>452</b>	<b>240</b>	<b>13,801</b>	<b>12,432</b>
Participations in associated companies and joint ventures	12	785	711	611	573	0	0	472	436	32	392	1,900	2,112
Eliminations												-19	-18
<b>Total segment assets</b>		<b>6,882</b>	<b>6,917</b>	<b>4,128</b>	<b>3,245</b>	<b>923</b>	<b>348</b>	<b>3,284</b>	<b>3,402</b>	<b>483</b>	<b>632</b>	<b>15,682</b>	<b>14,526</b>
Interest-bearing receivables	13											1,406	1,380
Deferred tax assets												73	66
Other assets												696	838
Liquid funds												3,897	5,155
<b>Total assets</b>												<b>21,753</b>	<b>21,964</b>
<b>Segment liabilities</b>		<b>1,210</b>	<b>1,102</b>	<b>400</b>	<b>371</b>	<b>285</b>	<b>194</b>	<b>124</b>	<b>119</b>	<b>207</b>	<b>117</b>	<b>2,227</b>	<b>1,903</b>
Eliminations												-19	-18
<b>Total segment liabilities</b>												<b>2,208</b>	<b>1,885</b>
Deferred tax liabilities												819	616
Other liabilities												554	814
<b>Total liabilities included in capital employed</b>												<b>3,581</b>	<b>3,315</b>
Interest-bearing liabilities	14											4,885	5,107
Total equity												13,287	13,542
<b>Total equity and liabilities</b>												<b>21,753</b>	<b>21,964</b>
Number of employees		1,035	979	1,907	1,701	1,543	961	3,495	3,745	805	722	8,785	8,108
Average number of employees <sup>1)</sup>		1,036	1,064	1,807	1,529	1,180	877	3,710	3,814	774	711	8,507	7,994

1) Average number of employees is based on a monthly average for the period in review.

### Comparable operating profit including share of profits from associates and joint ventures and Comparable return on net assets

EUR million	Note	Generation		City Solutions		Consumer Solutions		Russia		Other	
		Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
<b>Comparable operating profit</b>		<b>478</b>	<b>417</b>	<b>98</b>	<b>64</b>	<b>41</b>	<b>48</b>	<b>296</b>	<b>191</b>	<b>-102</b>	<b>-77</b>
Share of profit of associated companies and joint ventures	12	-1	-34	80	76	0	0	31	38	38	51
Adjustment for Share of profit of associated companies and joint ventures		0	16	0	0	0	0	0	0	0	0
<b>Comparable operating profit including share of profits from associates and joint ventures</b>		<b>482</b>	<b>399</b>	<b>178</b>	<b>140</b>	<b>41</b>	<b>48</b>	<b>327</b>	<b>229</b>	<b>-63</b>	<b>-26</b>
Segment assets at the end of the period		6,882	6,917	4,128	3,245	923	348	3,284	3,402	483	632
Segment liabilities at the end of the period		1,210	1,102	400	371	285	194	124	119	207	117
<b>Comparable net assets</b>		<b>5,672</b>	<b>5,815</b>	<b>3,728</b>	<b>2,873</b>	<b>638</b>	<b>154</b>	<b>3,161</b>	<b>3,284</b>	<b>276</b>	<b>514</b>
<b>Comparable net assets average <sup>1)</sup></b>		<b>5,753</b>	<b>5,820</b>	<b>3,218</b>	<b>2,384</b>	<b>348</b>	<b>109</b>	<b>3,248</b>	<b>2,857</b>	<b>475</b>	<b>422</b>
<b>Comparable return on net assets, %</b>		<b>8.4</b>	<b>6.9</b>	<b>5.5</b>	<b>5.9</b>	<b>11.7</b>	<b>44.3</b>	<b>10.1</b>	<b>8.0</b>	<b>-13.3</b>	<b>-6.1</b>

1) Average net assets are calculated using the opening balance and end of each quarter values.

## 5. Financial risk management

The Group has not made any significant changes in policies regarding risk management during the period. Aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2016.

### Fair value hierarchy information

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 also accounting policies in the consolidated financial statements 2016, in Note 17 Financial assets and liabilities by fair value hierarchy.

### Financial assets

EUR million	Level 1		Level 2		Level 3		Netting <sup>2)</sup>		Total	
	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
<b>In non-current assets</b>										
Available for sale financial assets <sup>1)</sup>	0	0			65	58			65	58
Derivative financial instruments										
Electricity derivatives										
Hedge accounting			5	4			-5	-3	0	1
Non-hedge accounting	0	0	66	98			-30	-31	35	67
Interest rate and currency derivatives										
Hedge accounting			153	240					153	240
Non-hedge accounting			85	103					85	103
Other commodity future and forward contracts										
Non-hedge accounting	8	7	0	0			-1	-2	7	5
<b>Total in non-current assets</b>	<b>8</b>	<b>7</b>	<b>309</b>	<b>445</b>	<b>65</b>	<b>58</b>	<b>-36</b>	<b>-36</b>	<b>346</b>	<b>473</b>
<b>In current assets</b>										
Derivative financial instruments										
Electricity derivatives										
Hedge accounting			28	9			-7	-9	21	0
Non-hedge accounting	8	0	253	381			-192	-293	69	88
Interest rate and currency derivatives										
Hedge accounting			85	16					85	16
Non-hedge accounting			29	7					29	7
Other commodity future and forward contracts										
Non-hedge accounting	186	106	1	2			-151	-90	36	18
<b>Total in current assets</b>	<b>194</b>	<b>106</b>	<b>396</b>	<b>415</b>	<b>0</b>	<b>0</b>	<b>-350</b>	<b>-392</b>	<b>240</b>	<b>130</b>
<b>Total</b>	<b>202</b>	<b>113</b>	<b>705</b>	<b>860</b>	<b>65</b>	<b>58</b>	<b>-386</b>	<b>-428</b>	<b>586</b>	<b>603</b>

## Financial liabilities

EUR million	Level 1		Level 2		Level 3		Netting <sup>2)</sup>		Total	
	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
<b>In non-current liabilities</b>										
Interest-bearing liabilities <sup>3)</sup>			1,037	1,280					1,037	1,280
Derivative financial instruments										
Electricity derivatives										
Hedge accounting			28	51			-5	-3	23	48
Non-hedge accounting			131	121			-30	-31	100	90
Interest rate and currency derivatives										
Hedge accounting			45	70					45	70
Non-hedge accounting			43	51					43	51
Other commodity future and forward contracts										
Non-hedge accounting	3	5	1	0			-1	-2	3	3
<b>Total in non-current liabilities</b>	<b>3</b>	<b>5</b>	<b>1,285</b>	<b>1,573</b>	<b>0</b>	<b>0</b>	<b>-36</b>	<b>-36</b>	<b>1,251</b>	<b>1,542</b>
<b>In current liabilities</b>										
Derivative financial instruments										
Electricity derivatives										
Hedge accounting			39	92			-7	-9	31	83
Non-hedge accounting	7	0	315	448			-192	-293	131	155
Interest rate and currency derivatives										
Hedge accounting			12	10					12	10
Non-hedge accounting			12	130					12	130
Other commodity future and forward contracts										
Non-hedge accounting	160	106	4	2			-151	-90	13	18
<b>Total in current liabilities</b>	<b>167</b>	<b>106</b>	<b>382</b>	<b>682</b>	<b>0</b>	<b>0</b>	<b>-350</b>	<b>-392</b>	<b>200</b>	<b>396</b>
<b>Total</b>	<b>170</b>	<b>111</b>	<b>1,667</b>	<b>2,255</b>	<b>0</b>	<b>0</b>	<b>-386</b>	<b>-428</b>	<b>1,451</b>	<b>1,938</b>

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 65 million (Dec 31 2016: 58), for which the fair value cannot be reliably determined. This includes Fortum's indirect shareholding in Fennovoima of EUR 25 million (Dec 31 2016: 18). These assets are measured at cost less any impairment costs.

2) Receivables to and liabilities from electricity and other commodity exchanges arising from standard derivative contracts with same delivery period are netted.

3) Fair valued part of bonds when hedge accounting is applied (fair value hedge).

Net fair value amount of interest rate and currency derivatives is EUR 241 million, including assets EUR 353 million and liabilities EUR 112 million. Fortum has cash collaterals based on Credit Support Annex agreements with some counterparties. At the end of December 2017 Fortum had received EUR 113 million from Credit Support Annex agreements. The received cash has been booked as short-term liability.

Regarding the relevant interest-bearing liabilities, see Note 14 Interest-bearing net debt and Note 19 Pledged assets and contingent liabilities.

## 6. Acquisitions and disposals

### 6.1 Acquisitions

EUR million	Q4 2017	Q4 2016	2017	2016
Gross investments in shares in subsidiary companies	80	12	982	813
Gross investments in shares in associated companies and joint ventures	41	7	135	17
Gross investments in available for sale financial assets	2	9	8	14
<b>Gross investments in shares</b>	<b>123</b>	<b>29</b>	<b>1,125</b>	<b>844</b>

#### Uniper investment

On 26 September 2017, Fortum announced it had signed a transaction agreement with E.ON under which E.ON has the right to tender its 46.65% shareholding in Uniper in early 2018. In November 2017 Fortum launched a voluntary public takeover offer to all Uniper shareholders at a total value of EUR 22 per share.

On 8 January 2018, E.ON SE announced that it had decided to tender its 170,720,340 Uniper SE shares (corresponding to 46.65% of shares and voting rights) into Fortum's public takeover offer. Furthermore, E.ON announced that the members of the E.ON Board of Management who have until now held Uniper shares privately will also tender all of their shares to Fortum under the voluntary public takeover offer.

On 19 January 2018, Fortum announced that the number of shares tendered during the initial acceptance period of Fortum's voluntary public takeover offer for the outstanding shares of Uniper totalled 171,736,647 shares. This corresponds to approximately 46.93% of the share capital and the voting rights of Uniper. The initial acceptance period ended on 16 January 2018 and the additional acceptance period resumed on 20 January 2018 and will end on 2 February 2018.

#### Acquisitions during 2017

In January 2017 Fortum completed the acquisition of 100% of the shares in three wind power companies from the Norwegian company Nordkraft. The transaction consists of the Nygårdsfjellet wind farm, which is already operational, as well as the fully-permitted Ånstadblåheia and Sørfjord projects. Fortum has started the construction of the Ånstadblåheia and Sørfjord projects, expected to be commissioned in 2018 and 2019. When built the installed capacity of the three wind farms would total approximately 170 MW.

Fortum started a redemption process for the remaining shares of Ekokem Corporation (renamed as Fortum Waste Solution Oy) in October 2016. The process was finalized in March 2017 after which Fortum owns 100% of the shares in the company.

In April 2017, Fortum and RUSNANO, a Russian state-owned development company, signed a 50/50 investment partnership in order to secure the possibility of a Russian Capacity Supply Agreement (CSA) wind portfolio in Russia. The wind investment fund 50/50 owned by Fortum and RUSNANO was awarded 1,000 MW wind capacity in Russian wind CSA auction in June 2017. The investment decisions will be made on a case-by-case basis within the total mandate of the wind investment fund. Fortum's equity stake in the wind investment fund totals a maximum of RUB 15 billion (currently approximately EUR 220 million). The amount is invested over time (within approximately 5 years) as it is subject to positive investment decisions. During 2017 Fortum invested EUR 43 million in the fund.

On 4 August Fortum concluded the restructuring of the ownership in Hafslund together with City of Oslo. Fortum sold its 34.1% stake in Hafslund ASA to the City of Oslo. Fortum acquired 100% of Hafslund Markets AS, 50% of Hafslund Varme AS including the City of Oslo's waste-to-energy company Klemetsrudanlegget AS (KEA), currently Fortum Oslo Varme AS, and 10% of Hafslund Produksjon Holding AS. The total debt-free price of the acquisition was approximately EUR 940 million.

The combined net cash investment of the transactions, including the dividend received in May 2017, was approximately EUR 230 million.

Hafslund Markets and Fortum Oslo Varme are consolidated into Fortum Group from 1 August 2017. Hafslund Markets is consolidated as a part of the Consumer Solutions segment. Fortum has operational responsibility of Fortum Oslo Varme, which is consolidated as a subsidiary with 50% non-controlling interest into the results of City Solutions segment. Hafslund Produksjon Holding is treated as an associated company and reported in the Generation segment. The initial goodwill from the purchase price allocations, prepared based on the 31 July balance sheets, is EUR 215 million for Hafslund Markets and EUR 69 million for Fortum Oslo Varme respectively. The initial purchase price allocation is still preliminary as all valuation effects, especially regarding the provisions, have not been finalised.

The impact from Hafslund acquisition on fourth quarter sales in the Consumer Solutions segment was EUR 242 million, comparable operating profit EUR 12 million and comparable EBITDA EUR 17 million (2017 sales EUR 344 million, comparable operating profit EUR 13 million and comparable EBITDA EUR 22 million). The impact on fourth quarter sales in the City Solutions segment was EUR 48 million, comparable operating profit EUR 21 million and comparable EBITDA EUR 29 million (2017 sales EUR 56 million, comparable operating profit EUR 15 million and comparable EBITDA EUR 29 million).

In October 2017 Fortum and SUENKO established a joint venture, JSC Ural-Siberian Heat and Power Company (YUSTEK), for the heat supply in Tyumen, Russia. Fortum will continue as CHP owner and selling heat to YUSTEK.

In December 2017 Fortum acquired three solar power companies from Hevel Group. The Pleshanovskaya (10 MW) and Grachevskaya (10 MW) solar power plants are located in the Orenburg region and the Bugulchanskaya (15 MW) solar power plant in the Republic of Bashkortostan. All three power plants are operational and will receive capacity Supply Agreement (CSA) payments for approximately 15 years after commissioning at an average CSA price corresponding to approximately EUR 430/MWh. The plants were commissioned in 2016 and 2017.

2017				
EUR million	Hafslund Markets AS	Fortum Oslo Varme AS	Other	Fortum total
Consideration paid in cash	589	152	70	811
Unpaid consideration	0	0	9	9
<b>Total consideration</b>	<b>589</b>	<b>152</b>	<b>79</b>	<b>820</b>
Fair value of the acquired net assets	374	84	77	535
Translation difference	1	0	2	2
<b>Goodwill</b>	<b>215</b>	<b>69</b>	<b>1</b>	<b>286</b>

EUR million	Hafslund Markets AS			Fortum Oslo Varme AS			Fortum total <sup>1)</sup>		
Fair value of the acquired net identifiable assets	Acquired book values	Allocated fair values	Total fair value	Acquired book values	Allocated fair values	Total fair value	Acquired book values	Allocated fair values	Total fair value
Cash and cash equivalents	158		158	37		37	201		201
Intangible assets	12	284	296	0		0	17	334	352
Property, plant and equipment	5		5	526	207	733	604	208	811
Other assets	179		179	21		21	206		206
Deferred tax liabilities	-19	-68	-88	-21	-50	-71	-46	-129	-175
Other non-interest bearing liabilities	-176		-176	-39		-39	-217		-217
Interest-bearing liabilities	0		0	-445		-445	-489		-489
<b>Net identifiable assets</b>	<b>158</b>	<b>216</b>	<b>374</b>	<b>79</b>	<b>157</b>	<b>237</b>	<b>275</b>	<b>413</b>	<b>688</b>
Non-controlling interests	0	0	0	51	102	153	51	102	153
<b>Total</b>	<b>158</b>	<b>216</b>	<b>374</b>	<b>29</b>	<b>55</b>	<b>84</b>	<b>225</b>	<b>310</b>	<b>535</b>

1) Including acquired book values and allocated fair values from the acquisition of Norwegian wind park companies, Russian solar power companies as well as other smaller acquisitions.

EUR million	Hafslund Markets AS	Fortum Oslo Varme AS	Other	Fortum total
<b>Gross investment</b>				
Purchase consideration settled in cash	589	152	70	811
Cash and cash equivalents in acquired subsidiaries	158	37	6	201
Translation difference	1	0	2	3
<b>Cash outflow in acquisition</b>	<b>432</b>	<b>116</b>	<b>65</b>	<b>613</b>
Unpaid consideration			9	9
Interest-bearing debt in acquired subsidiaries		445	44	489
of which loans given by Fortum		-213		-213
Transaction adjustments to debt-like items	54	26	0	80
Translation difference	0	1	2	4
<b>Total gross investment in acquired subsidiaries</b>	<b>486</b>	<b>375</b>	<b>121</b>	<b>982</b>

#### Acquisitions during 2016

The acquisition of approximately 81% of the shares in the Nordic circular economy company Ekokem Corporation (renamed as Fortum Waste Solutions Oy) was finalised on 31 August 2016. The debt and cash-free purchase price for 100% of the company was approximately EUR 680 million. Fortum also made a tender offer valid until end of September to the remaining shareholders at the same price of 165 EUR per share. By the end of December Fortum's total shareholding was 98.2%.

The initial purchase price allocation as of 31 August 2016 was finalised during Q3/2017. No material changes were made to the initial purchase price allocation.

Fortum Waste Solutions Oy is fully consolidated into Fortum Group from the end of August 2016 and has been integrated as a business area into the City Solutions segment. The comparative numbers in this interim report include the income statement effect of Fortum Waste Solutions from 1 September 2016 onwards. The consolidated sales for 2017 included in the City Solutions segment was EUR 293 million (Sept to Dec 2016: 105), comparable operating profit EUR 24 million (Sept to Dec 2016: 7) and comparable EBITDA EUR 74 million (Sept to Dec 2016: 26).



On 8 January 2016, Fortum made a public tender offer in Poland to purchase all shares in Grupa DUON S.A. (renamed as Fortum Markets Polska S.A.), an electricity and gas sales company listed on the Warsaw Stock Exchange. During the subscription period that ended on 26 February 2016 Fortum received subscriptions from shareholders representing altogether 93.35% shares in the company at the offered price PLN 3.85 per share. The remaining shares were purchased from shareholders under the mandatory squeeze-out procedure at the same price per share. In April Fortum obtained 100% of shares in Fortum Markets Polska S.A. and in June the company was delisted.

The comparative numbers in this interim report include the income statement effect of Fortum Markets Polska S.A. from 1 April 2016 onwards. The consolidated sales for 2017 included in the Consumer Solutions segment was EUR 266 million (April-Dec 2016: 155), comparable operating profit EUR 0 million (April-Dec 2016: 4) and comparable EBITDA EUR 4 million (April-Dec 2016: 8).

The initial purchase price allocation as of 31 March 2016 was finalised during Q1/2017. No material changes were made compared to the information disclosed in the consolidated financial statements for 2016.

On 1 April 2016 Fortum acquired 100% of the shares in the Swedish IT company Info24 AB (renamed as Tingcore AB), a company specialised in the development of business solutions within the IoT, Internet of Things. On 21 December 2016 Fortum acquired 100% of the shares in Turebergs Recycling AB, a Swedish company with main business in environmental construction, recycling and processing of bottom ash from waste-to-energy plants.

2016	Fortum Waste Solutions Oy	Fortum Markets Polska S.A.	Other	Fortum total
EUR million				
Consideration paid in cash	570	106	15	691
Unpaid consideration	10		3	13
<b>Total consideration</b>	<b>580</b>	<b>106</b>	<b>17</b>	<b>703</b>
Fair value of the acquired net assets	440	86	17	543
Translation difference	0	2	0	2
<b>Goodwill</b>	<b>141</b>	<b>22</b>	<b>0</b>	<b>163</b>

EUR million	Fortum Waste Solutions Oy			Fortum Markets Polska S.A.			Fortum total <sup>1)</sup>		
	Acquired book values	Allocated fair values	Total fair value	Acquired book values	Allocated fair values	Total fair value	Acquired book values	Allocated fair values	Total fair value
Fair value of the acquired net identifiable assets									
Cash and cash equivalents	17		17	8		8	26		26
Tangible and intangible assets	315	387	702	49	34	83	366	438	804
Other assets	67		67	37		37	108		108
Deferred tax liabilities	-34	-77	-112	-1	-7	-7	-35	-88	-123
Other non-interest bearing liabilities	-117		-117	-16		-16	-135		-135
Interest-bearing liabilities	-117		-117	-19		-19	-136		-136
<b>Net identifiable assets</b>	<b>131</b>	<b>309</b>	<b>441</b>	<b>58</b>	<b>28</b>	<b>86</b>	<b>194</b>	<b>351</b>	<b>545</b>
Non-controlling interests	1		1	1		1	2		2
<b>Total</b>	<b>131</b>	<b>309</b>	<b>440</b>	<b>58</b>	<b>28</b>	<b>86</b>	<b>192</b>	<b>351</b>	<b>543</b>

1) Including acquired book values and allocated fair values from the acquisition of Tingcore AB and Turebergs Recycling AB.

EUR million	Fortum Waste Solutions Oy	Fortum Markets Polska S.A.	Other	Fortum total
<b>Gross investment</b>				
Purchase consideration settled in cash	570	106	15	691
Cash and cash equivalents in acquired subsidiaries	17	8	1	26
<b>Cash outflow in acquisition</b>	<b>553</b>	<b>98</b>	<b>14</b>	<b>664</b>
Unpaid consideration	10		3	13
Interest-bearing debt in acquired subsidiaries	117	19	0	136
<b>Total gross investment in acquired subsidiaries</b>	<b>680</b>	<b>117</b>	<b>17</b>	<b>813</b>

## 6.2 Disposals

EUR million	Q4 2017	Q4 2016	2017	2016
Gross divestments of shares in subsidiary companies	1	3	55	127
Gross divestments of shares in associated companies and joint ventures	0	0	687	34
<b>Gross divestments of shares</b>	<b>1</b>	<b>3</b>	<b>742</b>	<b>161</b>

### Disposals during 2017

On 3 August 2017 Fortum sold its 34.1% stake in Hafslund ASA to the City of Oslo in connection with the restructuring of the ownership in Hafslund. Fortum booked a one-time tax-free sales gain in Other segment in the third quarter 2017 results totalling approximately EUR 324 million including transaction costs, corresponding EUR 0.36 earnings per share.

In November 2017 Fortum sold its 51% stake in the Norwegian electricity sales company Røyken Kraft AS to the minority shareholder Røyken Energiverk AS. The company was acquired as part of the Hafslund Markeds AS group in the restructuring of the ownership in Hafslund.

In May 2017, Fortum agreed to sell 100% of its shares in the Polish gas infrastructure company DUON Dystrybcja S.A. to Infracapital, the infrastructure investment arm of M&G Investments. DUON Dystrybcja S.A. is transporting grid gas and LNG in Poland. The company was acquired as part of the acquisition of the electricity and gas sales company Grupa DUON S.A. (currently Fortum Markets Polska S.A.) in 2016. Fortum booked in the third quarter of 2017 a one-time pre-tax sales gain in Consumer Solution segment totalling EUR 2 million.

### Disposals during 2016

Fortum sold its 100% shareholding in its Russian subsidiary OOO Tobolsk CHP to SIBUR, Russia's largest integrated gas processing and petrochemicals company in February 2016. OOO Tobolsk CHP owns and operates the combined heat and power (CHP) plant in the city of Tobolsk in Western Siberia. Fortum booked in Q1 2016 a one-time pre-tax sales gain in Russia segment totalling EUR 32 million.

In March 2016 Fortum concluded the divestment of its 51.4%-shareholding in the Estonian natural gas import, sales and distribution company AS Eesti Gaas. Fortum sold its shareholding to Trilini Energy OÜ. The sale resulted in a one-time pre-tax sales gain in City Solutions segment totalling EUR 11 million in the first quarter 2016 results.

## 7. Sales

EUR million	Q4 2017	Q4 2016	2017	2016
Power sales excluding indirect taxes	960	721	3,089	2,587
Heating sales	281	238	782	648
Other sales	191	185	649	398
<b>Total</b>	<b>1,432</b>	<b>1,143</b>	<b>4,520</b>	<b>3,632</b>

## 8. Income taxes

Taxes for the period totalled EUR 229 (2016: 90) million. The effective income tax rate according to the income statement was 20.6% (2016: 15.2%). The comparable effective income tax rate, excluding the impact of the share of profit from associated companies, joint ventures as well as non-taxable capital gains, tax rate changes and other major one time income tax effects, was 18.8% (2016: 20.0 %).

The major one time income tax effect in Q2 2017 was related to decision from the Administrative court of appeal in Sweden and was totaling EUR 115 million. It did not have any cash flow effect as the additional taxes have already been paid in June 2016.

Fortum has paid taxes regarding ongoing tax disputes. The appeal processes are ongoing and based on legal analysis and legal opinions the payments are booked as a receivable, EUR 142 (31 Dec 2016: 237) million, included in Income tax receivables. For additional information see Note 20 Legal actions and official proceedings.

## 9. Dividend per share

A dividend for 2016 of EUR 1.10 per share, amounting to a total of EUR 977 million, was decided in the Annual General Meeting on 4 April 2017. The dividend was paid on 13 April 2017.

A dividend for 2015 of EUR 1.10 per share, amounting to a total of EUR 977 million, was decided in the Annual General Meeting on 5 April 2016. The dividend was paid on 14 April 2016.

## 10. Changes in intangible assets

EUR million	Dec 31 2017	Dec 31 2016
<b>Opening balance</b>	<b>467</b>	<b>222</b>
Acquisitions	637	216
Capital expenditures	18	3
Depreciation and amortisation	-30	-19
Reclassifications	14	4
Translation differences and other adjustments	-41	39
<b>Closing balance</b>	<b>1,064</b>	<b>467</b>

EUR million	Dec 31 2017	Dec 31 2016
<b>Goodwill included in opening balance</b>	<b>353</b>	<b>152</b>
Acquisitions <sup>1)</sup>	286	163
Translation differences	-27	38
<b>Goodwill included in closing balance</b>	<b>613</b>	<b>353</b>

1) See additional information in Note 6 Acquisitions and disposals.

## 11. Changes in property, plant and equipment

EUR million	Dec 31 2017	Dec 31 2016
<b>Opening balance</b>	<b>9,930</b>	<b>8,710</b>
Acquisitions	811	747
Capital expenditures	672	588
Changes of nuclear asset retirement cost	-6	-6
Disposals	-8	-7
Depreciation and amortisation	-434	-355
Divestments	-53	-92
Reclassifications	-14	-4
Translation differences and other adjustments	-389	348
<b>Closing balance</b>	<b>10,510</b>	<b>9,930</b>

## 12. Changes in participations in associates and joint ventures

EUR million	Dec 31 2017	Dec 31 2016
<b>Opening balance</b>	<b>2,112</b>	<b>1,959</b>
Acquisitions	135	17
Share of profits from associates and joint ventures	148	131
Dividend income received	-58	-54
OCI items associated companies	-3	0
Divestments	-363	-22
Translation differences and other adjustments	-71	81
<b>Closing balance</b>	<b>1,900</b>	<b>2,112</b>

### Share of profits from associates and joint ventures

Fortum's share of profit from associates and joint ventures in Q4 2017 was EUR 34 million (Q4 2016: 15), of which Territorial Generating Company (TGC-1) represented EUR 4 million (Q4 2016: 4), Fortum Värme EUR 27 million (Q4 2016: 25) and Hafslund ASA EUR 0 million (Q4 2016: 9).

According to Fortum Group accounting policies the share of profits from Hafslund ASA and TGC-1 are included in Fortum Group figures based on the previous quarter information since updated interim information is not normally available.

Fortum's share of profit from associates and joint ventures for the year 2017 amounted to EUR 148 million (2016: 131), of which Territorial Generating Company (TGC-1) represented EUR 32 million (2016: 38), Fortum Värme EUR 66 million (2016: 66) and Hafslund ASA EUR 39 million (2016: 51). Due to the restructuring of Hafslund ASA and the divestment of Fortum's 34.1% share in the company, Fortum will no longer in the future have share of profits from Hafslund ASA.

### Dividends received

During 2017 Fortum has received EUR 58 million (2016: 54) in dividends from associates of which EUR 21 million (2016: 21) was received from Fortum Värme and EUR 23 million (2016: 21) from Hafslund.

## 13. Interest-bearing receivables

EUR million	Carrying amount	Fair value	Carrying amount	Fair value
	Dec 31 2017	Dec 31 2017	Dec 31 2016	Dec 31 2016
Long-term loan receivables from associated companies	656	689	704	744
Long-term loan receivables from joint ventures	208	229	182	206
Finance lease receivables from joint ventures	41	41	0	0
Other long-term interest-bearing receivables	106	111	99	99
<b>Total long-term interest-bearing receivables</b>	<b>1,010</b>	<b>1,071</b>	<b>985</b>	<b>1,049</b>
Short-term interest bearing receivables	395	395	395	395
<b>Total interest-bearing receivables</b>	<b>1,406</b>	<b>1,466</b>	<b>1,380</b>	<b>1,444</b>

Long-term loan receivables include receivables from associated companies and joint ventures EUR 864 million (Dec 31 2016: 886). These receivables include EUR 638 million (Dec 31 2016: 686) from Swedish nuclear companies, OKG AB and Forsmarks Kraftgrupp AB, which are mainly funded with shareholder loans, pro rata each shareholder's ownership.

Teollisuuden Voima Oyj (TVO) is building Olkiluoto 3, a nuclear power plant, which is funded through external loans, share issues and shareholder loans according to shareholders' agreement between the owners of TVO. At the end of December 2017 Fortum has EUR 145 million (Dec 31 2016: 120) outstanding receivables regarding Olkiluoto 3 and is additionally committed to provide at maximum totally EUR 88 million, of which 38 million is the Fortum share of a new shareholder loan commitment totalling EUR 150 million signed by all TVO shareholders in December 2017.

Finance leases relate to heat pipelines in Tyumen area, which are leased to newly established joint venture YUSTEK.

Interest-bearing receivables includes also EUR 102 million (Dec 31 2016: 131) receivable from SIBUR, a Russian gas processing and petrochemicals company regarding divested shares of OOO Tobolsk CHP.

Short-term interest-bearing receivables include EUR 363 million (Dec 31 2016: 360) restricted cash mainly given as collateral for commodity exchanges. The new European Market Infrastructure Regulation (EMIR) came into force in 2016 requiring fully-backed guarantees.

In the end of 2016 Nasdaq's market making for forwards ended and the trading moved from forwards with cash collaterals to futures with daily cash settlements. In Fortum's cash flow statement the daily cash settlements for futures are shown as change in working capital whereas the changes in cash collaterals for forwards are included in cash flow from investing activities.

#### 14. Interest-bearing net debt

Net debt		Dec 31	Dec 31
EUR million		2017	2016
Interest-bearing liabilities		4,885	5,107
Liquid funds		3,897	5,155
<b>Net debt</b>		<b>988</b>	<b>-48</b>

Net debt is calculated as interest-bearing liabilities less liquid funds without deducting interest-bearing receivables amounting to EUR 1,406 million (Dec 31 2016: 1,380). Interest-bearing receivables mainly consist of shareholder loans to partly owned nuclear companies regarded as long-term financing. For more information see Note 13 Interest-bearing receivables.

Interest-bearing debt	Carrying	Fair	Carrying	Fair
	amount	value	amount	value
EUR million	Dec 31	Dec 31	Dec 31	Dec 31
	2017	2017	2016	2016
Bonds	2,943	3,143	3,329	3,609
Loans from financial institutions	283	303	393	425
Reborrowing from the Finnish State Nuclear Waste Management Fund	1,129	1,192	1,094	1,156
Other long term interest-bearing debt <sup>1)</sup>	324	373	151	157
<b>Total long term interest-bearing debt <sup>2)</sup></b>	<b>4,679</b>	<b>5,011</b>	<b>4,967</b>	<b>5,348</b>
Short term interest-bearing debt	206	207	140	140
<b>Total</b>	<b>4,885</b>	<b>5,218</b>	<b>5,107</b>	<b>5,488</b>

1) Including loans from Finnish pension institutions EUR 48 million (Dec 31 2016: 58) and other loans EUR 276 million (Dec 31 2016: 93).

2) Including current portion of long-term debt EUR 560 million (Dec 31 2016: 499).

The reborrowing from the Finnish State Nuclear Waste Management Fund includes the part relating to Loviisa nuclear power plant as well as borrowing done through TVO.

During the first quarter of 2017 Fortum increased the amount of reborrowing from the Finnish State Nuclear Waste Management Fund and TVO by EUR 35 million to EUR 1,129 million. In March Fortum repaid two SEK bonds equivalent to EUR 290 million (SEK 2,750 million). During the second quarter Fortum repaid a NOK bond equivalent to EUR 53 million (NOK 500 million) and a bilateral SEK loan to NIB equivalent to EUR 78 million (SEK 750 million). Change in other long term interest-bearing debt during the third quarter includes mainly the shareholder loan given by the City of Oslo to Fortum Oslo Varme AS as a part of the whole Hafslund restructuring amounting to EUR 213 million (NOK 2,000 million). Fortum Oslo Varme is financed on pro rata basis. No major changes during last quarter.

At the end of December 2017, the amount of short term financing included 113 million (Dec 31 2016: 135) from Credit Support Annex agreements. The interest-bearing debt decreased during the last quarter by EUR 66 million from EUR 4,951 million to EUR 4,885 million.

The average interest rate for the portfolio consisting mainly of EUR and SEK loans was 2.4% at the balance sheet date (Dec 31 2016: 2.1%). Part of the external loans, EUR 773 million (Dec 31 2016: 805) have been swapped to RUB and the average interest cost for these loans including cost for hedging the RUB was 9.5% at the balance sheet date (Dec 31 2016: 11.4%). The average interest rate on total loans and derivatives at the balance sheet date was 3.6% (Dec 31 2016: 3.5%).

Maturity of interest-bearing liabilities		Dec 31
EUR million		2017
2018 <sup>1)</sup>		766
2019		812
2020		71
2021		538
2022		1,068
2023 and later		1,630
<b>Total</b>		<b>4,885</b>

1) The cash received as collateral based on Credit Support Annex agreements, amounting to EUR 113 million, has been booked as short-term liability.

Liquid funds		Dec 31	Dec 31
EUR million		2017	2016
Deposits and securities with maturity more than 3 months		715	3,475
Cash and cash equivalents		3,182	1,679
<b>Total</b>		<b>3,897</b>	<b>5,155</b>

Total liquid funds increased by EUR 20 million from EUR 3,877 million to EUR 3,897 million during the last quarter.

Liquid funds consist of deposits and cash in bank accounts amounting to EUR 3,540 million and commercial papers EUR 357 million. Deposits and securities include fixed term deposits and commercial papers with maturity more than three months but less than twelve months. The average interest rate on deposits and securities excluding Russian deposits on 31 December 2017 was -0.27% (Dec 31 2016: -0.01%). Liquid funds held by PAO Fortum amounted to EUR 246 million (Dec 31 2016: 105), of which EUR 231 million (2016: 103) was held as bank deposits. The average interest rate for this portfolio was 6.1% at the balance sheet date.

Liquid funds totaling EUR 3,348 million (Dec 31 2016: 4,663) are placed with counterparties that have an investment grade credit rating. In addition, EUR 549 million (Dec 31 2016: 377) have been placed with counterparties separately reviewed and approved by the Group's credit control department.

The committed and undrawn credit facilities amounted to EUR 1,800 million (2016: 1,963), excluding committed credit facilities for Fortum's offer for Uniper shares. In relation to offer for Uniper shares Fortum had commitments from 10 relationship banks to provide credit facilities at the request of Fortum in an aggregate amount of up to EUR 12,000 million.

## 15. Nuclear related assets and liabilities

Fortum owns Loviisa nuclear power plant in Finland. In Fortum's consolidated balance sheet, Share in the State Nuclear Waste Management Fund and the Nuclear provisions relate to Loviisa nuclear power plant.

Fortum also has minority interests in nuclear power companies, i.e. Teollisuuden Voima Oyj (TVO) in Finland and OKG Aktiebolag (OKG) and Forsmarks Kraftgrupp AB (Forsmark) in Sweden. The minority shareholdings are classified as associated companies and joint ventures and are consolidated with equity method. Both the Finnish and the Swedish companies are non-profit making, i.e. electricity production is invoiced to the owners at cost including depreciations, interest costs and production taxes accounted for according to local GAAP.

Both in Finland and in Sweden nuclear operators are legally obligated for the decommissioning of the plants and the disposal of spent fuel (nuclear waste management). In both countries the nuclear operators are obligated to secure the funding of nuclear waste management by paying to government operated nuclear waste funds. The nuclear operators also have to give securities to guarantee that sufficient funds exist to cover future expenses of decommissioning of the power plant and disposal of spent fuel.

### 15.1 Nuclear related assets and liabilities for 100% owned nuclear power plant, Loviisa

EUR million	Dec 31 2017	Dec 31 2016
<b>Carrying values in the balance sheet</b>		
Nuclear provisions	858	830
Fortum's share of the State Nuclear Waste Management Fund	858	830
<b>Legal liability and actual share of the State Nuclear Waste Management Fund</b>		
Liability for nuclear waste management according to the Nuclear Energy Act	1,161	1,141
Funding obligation target	1,153	1,125
Fortum's share of the State Nuclear Waste Management Fund	1,125	1,094
Share of the fund not recognised in the balance sheet	267	264

#### Legal liability for Loviisa nuclear power plant

The legal liability on 31 December 2017, decided by the Ministry of Economic Affairs and Employment in December 2017, was EUR 1,161 million.

The legal liability is based on a cost estimate, which is done every year, and a technical plan, which is made every third year. The current technical plan was updated in 2016. Following the update of the technical plan in 2016, the liability increased due to updated cost estimates related to interim and final storage of spent fuel. The legal liability is determined by assuming that the decommissioning would start at the beginning of the year following the assessment year.

#### Fortum's share in the State Nuclear Waste Management Fund

According to Nuclear Energy Act, Fortum is obligated to contribute funds in full to the State Nuclear Waste Management Fund to cover the legal liability. Fortum contributes funds to the Finnish State Nuclear Waste Management Fund based on the yearly funding obligation target decided by the governmental authorities in December in connection with the decision of size of the legal liability. The current funding obligation target decided in December 2017 is EUR 1,153 million.

#### Nuclear provision and fund accounted for according to IFRS

Nuclear provisions include the provision for decommissioning and the provision for disposal of spent fuel. The carrying value of the nuclear provisions, calculated according to IAS 37, increased by EUR 28 million compared to 31 December 2016, totaling EUR 858 million on 31 December 2017. The provisions are based on the same cash flows for future costs as the legal liability, but the legal liability is not discounted to net present value.

Fortum's share of the Finnish Nuclear Waste Management Fund is from an IFRS perspective overfunded with EUR 267 million, since Fortum's share of the Fund on 31 December 2017 was EUR 1,125 million and the carrying value in the balance sheet was EUR 858 million. The Fund in Fortum's balance sheet can at maximum be equal to the amount of the provisions according to IFRS. As long as the Fund is overfunded from an IFRS perspective, the operating profit is adjusted positively if the provisions increase more than the Fund and negatively if actual value of the fund increases more than the provisions. This accounting effect is not included in Comparable operating profit in Fortum financial reporting, see Note 4 Segment information.

#### Borrowing from the State Nuclear Waste Management Fund

Participants in the Finnish 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 shares in Kemijoki Oy as security for the loans. The loans are renewed yearly. (See Note 14 Interest-bearing net debt and Note 19 Pledged assets and contingent liabilities).

#### 15.2 Nuclear power plants in associated companies and joint ventures

OKG, Forsmark and TVO are non-profit making companies, i.e. electricity production is invoiced to the owners at cost including depreciations, interest costs and production taxes. Invoiced cost is accounted according to local GAAP. In addition to the invoiced electricity production cost, Fortum makes IFRS adjustments to comply with Fortum's accounting principles. These adjustments include also Fortum's share of the companies' nuclear waste funds and nuclear provisions.

The tables below present the 100% figures relating to nuclear funds and provisions for the companies as well as Fortum's net share.

TVO's total nuclear related assets and liabilities (100%)		
EUR million	Dec 31 2017	Dec 31 2016
<b>Carrying values in TVO's balance sheet</b>		
Nuclear provisions	953	955
Share of the State Nuclear Waste Management Fund	953	955
<b>of which Fortum's net share consolidated with equity method</b>	<b>0</b>	<b>0</b>
<b>TVO's legal liability and actual share of the State Nuclear Waste Management Fund</b>		
Liability for nuclear waste management according to the Nuclear Energy Act	1,482	1,450
Share of the State Nuclear Waste Management Fund	1,437	1,380
Share of the fund not recognised in the balance sheet	484	425

TVO's legal liability and contribution to the fund are based on same principles as described above for Loviisa nuclear power plant.

TVO's share of the Finnish State Nuclear Waste Management Fund is from an IFRS perspective overfunded with EUR 484 million (of which Fortum's share EUR 129 million), since TVO's share of the Fund on 31 December 2017 was EUR 1,437 million and the carrying value in the balance sheet was EUR 953 million.

Participants in the Finnish State Nuclear Waste Management Fund are allowed to borrow from the fund according to certain rules. Fortum is using the right to reborrow funds through TVO based on its ownership. See more information in Note 14 Interest-bearing net debt.

OKG's and Forsmark's total nuclear related assets and liabilities (100%)		
EUR million	Dec 31 2017	Dec 31 2016
<b>OKG's and Forsmark's nuclear related assets and liabilities <sup>1)</sup></b>		
Nuclear provisions	3,398	3,297
Share in the State Nuclear Waste Management Fund	3,105	3,068
<b>Net amount</b>	<b>-293</b>	<b>-229</b>
<b>of which Fortum's net share consolidated with equity method</b>	<b>-114</b>	<b>-106</b>

1) Accounted for according to Fortum's accounting principles. The companies' statutory financial statements are not prepared according to IFRS.

In Sweden Svensk Kärnbränslehantering AB (SKB), a company owned by the nuclear operators, takes care of all nuclear waste management related activities on behalf of nuclear operators. SKB receives its funding from the Swedish State Nuclear Waste Management Fund, which in turn is financed by the nuclear operators.

In addition to nuclear waste fees nuclear power companies provide guarantees for any uncovered liability and unexpected events. Fortum's guarantees given on behalf of nuclear associated companies are presented in Note 19 Pledged assets and contingent liabilities.

Nuclear waste fees and guarantees are updated every third year by governmental decision after a proposal from Swedish Radiation Safety Authority (SSM). The proposal is based on cost estimates done by SKB. Currently the fees and guarantees are decided for years 2015-2017. A new technical plan for nuclear waste management has been decided by SKB during 2016. During 2017 SKB has submitted the cost estimates based on the revised technical plan to SSM. In December 2017 the Swedish government decided the waste fees and guarantees for years 2018-2020. Nuclear waste fees are currently based on future costs with the assumed lifetime of 50 years (40 years in previous decision) for each unit of a nuclear power plant.

## 16. Other provisions

EUR million	Environmental provisions		Other provisions	
	Dec 31 2017	Dec 31 2016	Dec 31 2017	Dec 31 2016
<b>Opening balance</b>	<b>47</b>	<b>2</b>	<b>82</b>	<b>96</b>
Acquisitions	0	44	7	4
Increase in the provisions	0	1	31	14
Provisions used	0	0	-35	-25
Unused provisions reversed	0	0	-10	-9
Exchange rate differences and other changes	-4	0	4	2
<b>Closing balance</b>	<b>43</b>	<b>47</b>	<b>79</b>	<b>82</b>
<b>Current provisions <sup>1)</sup></b>	<b>0</b>	<b>1</b>	<b>22</b>	<b>11</b>
<b>Non-current provisions</b>	<b>43</b>	<b>46</b>	<b>57</b>	<b>70</b>

1) Included in trade and other payables in the balance sheet.

Environmental provisions include mainly provisions for obligations to cover and monitor landfills as well as to clean contaminated land areas. Main part of the provisions are estimated to be used within 10-15 years. The increase in environmental provisions in 2016 was mainly arising from the acquisition of Ekokem (see Note 6 Acquisitions and disposals).

Dismantling provision for the Finnish coal fired power plant Inkoo is included in Other provisions.

## 17. Operating lease commitments

EUR million	Dec 31 2017	Dec 31 2016
Due within a year	23	16
Due after one year and within five years	72	31
Due after five years	65	27
<b>Total</b>	<b>160</b>	<b>74</b>

Increase in operating lease commitments arises mainly from the lease agreement relating to the new head office in Espoo.

## 18. Capital commitments

EUR million	Dec 31 2017	Dec 31 2016
Property, plant and equipment	362	467

### Other commitments

On 26 September 2017, Fortum announced it had signed a transaction agreement with E.ON under which E.ON has the right to tender its 46.65% shareholding in Uniper in early 2018. In November 2017 Fortum launched a voluntary public takeover offer to all Uniper shareholders at a total value of EUR 22 per share (in total approximately EUR 8 billion).

On 19 January 2018, Fortum announced that the number of shares tendered during the initial acceptance period of Fortum's voluntary public takeover offer for the outstanding shares of Uniper totalled 171,736,647 shares. This corresponds to approximately 46.93% of the share capital and the voting rights of Uniper. The initial acceptance period ended on 16 January 2018 and the additional acceptance period resumed on 20 January 2018 and will end on 2 February 2018. The value of the tendered shares from the initial acceptance period is EUR 3.78 billion based on the total value of EUR 22 per share.

Fortum has committed to provide a maximum of EUR 93 million (Dec 31 2016: 100) to Voimaosakeyhtiö SF, for its participation in the Fennovoima nuclear power project in Finland. Furthermore, Fortum's remaining direct commitment regarding the construction of a waste-to-energy combined heat and power plant (CHP) in Kaunas, Lithuania is EUR 15 million at maximum at the end of 2017. The investment is made through Kauno Kogeneracinė Jėgainė (KKJ), a joint venture owned together with Lietuvos Energija.

For information regarding shareholder loan commitments related to associated companies and joint ventures, see Note 13 Interest-bearing receivables.



## 19. Pledged assets and contingent liabilities

EUR million	Dec 31 2017	Dec 31 2016
Pledged assets on own behalf		
For debt		
Pledges	300	291
Real estate mortgages	177	137
For other commitments		
Pledges	346	379
Real estate mortgages	141	99
Contingent liabilities on own behalf		
Other contingent liabilities	161	205
Contingent liabilities on behalf of associated companies and joint ventures		
Guarantees	598	603

### Pledged assets for debt

Participants in the Finnish State Nuclear Waste Management Fund are allowed to borrow from the Fund. Fortum has pledged shares in Kemijoki Oy as a security. As of 31 December 2017 the value of the pledged shares amounted to EUR 269 million (Dec 31 2016: 269).

Fortum Tartu in Estonia (60% owned by Fortum) has given real estate mortgages for a value of EUR 96 million (Dec 31 2016: 96) as a security for an external loan. Real estate mortgages have also been given for loan from Fortum's pension fund for EUR 41 million (Dec 31 2016: 41).

Property of the Russian solar plants of EUR 41 million was mortgaged for loans (Dec 31 2016: 0).

Regarding the relevant interest-bearing liabilities, see Note 14 Interest-bearing net debt.

### Pledged assets for other commitments

Pledges also include restricted cash given as trading collateral of EUR 346 million (Dec 31 2016: 345) for trading of electricity, gas and CO<sub>2</sub> emission allowances in Nasdaq Commodities Europe, Intercontinental Exchange (ICE), European Energy Exchange (EEX) and Polish Power Exchange (TGE). See also note 13 Interest-bearing receivables.

Fortum has given real estate mortgages in power plants in Finland, total value of EUR 141 million in December 2017 (Dec 31 2016: 99), as a security to the Finnish State Nuclear Waste Management Fund for the uncovered part of the legal liability and unexpected events relating to future costs for decommissioning and disposal of spent fuel in Loviisa nuclear power plant. 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. Any uncovered legal liability relates to periodising of the payments to the fund. The size of the securities given is updated yearly in Q2 based on the decisions regarding the legal liabilities and the funding target which take place around year end every year.

See more information in Note 15 Nuclear related assets and liabilities.

### Contingent liabilities on own behalf

Fortum owns 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%. Based on the participation agreement Fortum has to give a guarantee to TVO against breach in contract. The amount of the guarantee is set to EUR 125 million (Dec 31 2016: 125).

### Contingent liabilities on behalf of associated companies

Guarantees on behalf of associated companies and joint ventures mainly consist of guarantees relating to Fortum's associated nuclear companies (Teollisuuden Voima Oyj, Forsmarks Kraftgrupp AB and OKG AB). Guarantees for the period of 2015-2017 have been given on behalf of Forsmarks Kraftgrupp AB and OKG AB amounting to SEK 5 393 million (EUR 548 million) at 31 December 2017 (Dec 31 2016: EUR 565 million). There are two types of guarantees given on behalf of Forsmark Kraftgrupp AB and OKG AB. The Financing Amount is given to compensate for the current deficit in the Nuclear Waste Fund, assuming that no further nuclear waste fees are paid in. This deficit is calculated as the difference between the expected costs and the funds to cover these costs at the time of the calculation. The Supplementary Amount constitutes a guarantee for deficits that can arise as a result of unplanned events. The Financing Amount given by Fortum on behalf of Forsmark Kraftgrupp AB and OKG AB was SEK 3 843 million (EUR 391 million) and the Supplementary Amount was SEK 1 550 million (EUR 157 million) at 31 December 2017.

The guarantee given on behalf of Teollisuuden Voima Oyj to the Finnish State Nuclear Waste Management Fund amounted to EUR 50 million at 31 December 2017 (Dec 31 2016: 38). The guarantee covers the unpaid legal liability due to periodisation as well as risks for unexpected future costs.

Fortum has minority shares in legal companies owning nuclear power plants in Finland and Sweden. Fortum consolidates these companies according to equity method meaning that Fortum's share of the assets and liabilities are netted to the balance sheet. For information regarding nuclear related assets and liabilities of Loviisa nuclear power plant as well as Swedish and Finnish nuclear production companies where Fortum has a minority shareholding see Note 15 Nuclear related assets and liabilities.

### Other contingent liabilities

Fortum's 100% owned subsidiary Fortum Heat and Gas Oy has a collective contingent liability with Neste Oyj of the in 2004 demerged Fortum Oil and Gas Oy's liabilities based on the Finnish Companies Act's (734/1978) Chapter 14a Paragraph 6.

## 20. Legal actions and official proceedings

### Tax cases in Finland

No tax cases with material impact in Finland.

### Tax cases in Sweden

#### Cases relating to Swedish interest deductions

Fortum received income tax assessments in Sweden for the years 2009, 2010, 2011 and 2012 in December 2011, December 2012, December 2013 and October 2014, respectively. According to the tax authorities, Fortum would have to pay additional income taxes for the years 2009, 2010, 2011 and 2012 for the reallocation of loans between the Swedish subsidiaries in 2004-2005. In June 2017 the Administrative Court of Appeal in Stockholm, Sweden announced its decision relating to the income tax assessments for 2009-2012. The decisions were unfavorable to Fortum. Fortum disagrees with the interpretation of the Administrative Court of Appeal and has applied for the right to appeal from the Supreme Administrative Court. Due to the unfavorable decisions from the Administrative Court of Appeal, Fortum has booked a tax cost of SEK 1,106 million (EUR 115 million) and interest expense of SEK 69 million (EUR 7 million), in total SEK 1,175 million (EUR 122 million) in the second quarter 2017 results. The additional taxes and interest for 2009-2012 have already been paid in June 2016. Fortum has filed a request to initiate a mutual agreement procedure between Sweden and the Netherlands for the year 2012.

In addition Fortum has received income tax assessments in Sweden for the years 2013, 2014 and 2015 in December 2015, December 2016 and October 2017, respectively. The assessments concerns the loans given in 2013, 2014 and 2015 by Fortum's Dutch financing company to Fortum's subsidiaries in Sweden. The interest income for these loans was taxed in the Netherlands. The tax authorities considers just over a half of the interest relating to each loan as deductible, i.e. deriving from business needs. The rest of the interest is seen as non-deductible. The decision is based on the changes in the Swedish tax regulation in 2013. Fortum considers that the claims are unjustifiable and has appealed the decisions. In May 2017 the Administrative Court in Stockholm, Sweden, announced its decisions relating to the income tax assessment for the year 2013. The decisions were unfavorable to Fortum. Fortum disagrees with the argumentation of the court and has filed an appeal to the Administrative Court of Appeal in Stockholm in July 2017. The cases regarding the year 2014 and the year 2015 are pending before the Administrative Court. In December 2017, the Swedish tax authorities withdrew a part of their claims with respect to the years 2013 and 2015. Therefore, the additional tax claimed by the tax authorities for the year 2013 is currently SEK 239 million (EUR 24 million) and for the year 2015 SEK 186 million (EUR 19 million). For the year 2015 the adjusted amount was confirmed in a new tax assessment ("Obligatoriskt omprövningsbeslut") issued by the Swedish tax authorities in December 2017. The adjusted amount of additional tax for the year 2013 still needs to be confirmed by the Administrative Court of Appeal, as the additional tax according to the decision of Administrative Court from May 2017 was SEK 273 million (EUR 28 million).

Based on legal analysis supporting legal opinions, no provision has been recognized in the financial statements for the Swedish tax cases regarding the year 2013, 2014 and 2015. If the amounts of additional tax claimed by the tax authority remain final despite the appeals processes, the impact on net profit would be SEK 239 million (EUR 24 million) for the year 2013, SEK 282 million (EUR 29 million) for the year 2014 and SEK 186 million (EUR 19 million) for the year 2015. The additional taxes and interest for 2013, in total SEK 282 million (EUR 29 million) have been paid in accordance with the decision from the Administrative Court in July 2017 and based on the legal opinion booked as receivables.

#### Cases relating to the Swedish hydro real estate tax

Fortum Sverige AB has received a favorable decision from the Administrative Court in Stockholm in June 2017 relating to the Swedish hydro real estate tax. According to the decision, the increased property tax on hydro power generated electricity comprises unlawful state aid (i.e. the tax law is in conflict with EU legislation) and the property tax shall be set as 0,5 percent of the tax assessment value. The decision relates to the years 2009-2014 and the disputed amount for the five years totaled SEK 508 million tax, SEK 12 million interest (EUR 52 million tax, EUR 1 million interest). The amount has been repaid to Fortum in July 2017 and it has been booked in other current liabilities, not yet as income. The tax authorities has appealed the decision and the case is pending before the Administrative Court of Appeal.

### Tax cases in Belgium

Fortum has received income tax assessments in Belgium for the years 2008, 2009, 2010 and 2011. The tax authorities disagree with the tax treatment of Fortum EIF NV. Fortum finds the tax authorities interpretation not to be based on the local regulation and has appealed the decisions. The court of First instance in Antwerpen rejected Fortum's appeal for the years 2008 and 2009 in June 2014. Fortum found the decision unjustifiable and appealed to the Court of Appeal.

In January 2016 Fortum received a favorable decision from the Court of Appeal in which the Court disagreed with the tax authorities' interpretation and the tax assessment for 2008 was nullified. The tax authorities disagreed with the decision and filed an appeal to Hof van Cassatie (Supreme Court) in March 2016. Fortum's appeals concerning 2009-2011 are still pending and Fortum expects the remaining years to follow the final decision for 2008. Based on legal analysis and a supporting legal opinion, no provision has been accounted for in this interim report. The amount of additional tax claimed is approximately EUR 36 million for the year 2008, approximately EUR 27 million for the year 2009, approximately EUR 15 million for the year 2010 and approximately EUR 21 million for the year 2011. The tax has already been paid.

In November 2015 Fortum received an income tax assessment from the Belgian tax authorities for the year 2012. The tax authorities disagree with the tax treatment of Fortum Project Finance NV. Fortum finds the tax authorities' interpretation not to be based on the local regulation and has filed an objection against the tax adjustment. In line with treatment of the cases concerning 2008-2011, no provision has been accounted for in the financial statements. The amount of additional tax claimed is approximately EUR 15 million for the year 2012. The tax has already been paid.

### Litigations in associated companies

In Finland, Fortum is participating in the country's fifth nuclear power plant unit, Olkiluoto 3 (OL3), through the shareholding in Teollisuuden Voima Oyj (TVO) with an approximately 25% share representing some 400 MW in capacity. Most of the construction work for the plant unit have been completed. The installation of the electrical systems, the instrumentation and control system (I&C), and mechanical systems is still in progress.

In April 2016 TVO submitted to the Ministry of Economic Affairs and Employment (TEM) an application for an operating license. The simulator training for operating personnel commenced in February 2017. The cold functional testing to ensure the integrity of the primary circuit was completed in July. The hot functional testing phase started in December. In the hot functional tests which will take several months, the OL3 plant systems are tested as a whole, but without the fuel. The first phase of the turbine plant commissioning is completed. The de-preservation that started at the turbine plant in January 2017 has been completed, and the plant is ready for the hot functional testing.

OL3 was procured as a fixed-price turnkey project from a consortium (Supplier) formed by AREVA GmbH, AREVA NP SAS and Siemens AG. As stipulated in the plant contract, the consortium companies have joint and several liability for the contractual obligations. In accordance with the Supplier's schedule, updated in October 2017, regular electricity production in the unit was to commence in May 2019. The Supplier's schedule review for the project completion had reached a phase where the Supplier confirmed the main milestones. According to the Supplier, the first connection to the grid takes place in December 2018, and the start of regular electricity production will take place in May 2019. According to the Supplier's plant ramp-up program the unit will produce 2–4 TWh of electricity, at varying power levels, during the period of time between the first connection to the grid and the start of regular electricity production.

In December 2008 the OL3 Supplier initiated the International Chamber of Commerce (ICC) arbitration proceedings and submitted a claim concerning the delay and the ensuing costs incurred at the Olkiluoto 3 project. The Supplier has submitted claims to the ICC for an aggregate amount of approximately EUR 3.59 billion, which includes a total amount of approximately EUR 1.58 billion in penalty interest (calculated up to 30 June 2017) and payments allegedly delayed by TVO under the Plant Contract, as well as approximately EUR 132 million of alleged loss of profit.

In 2012, TVO submitted a counter-claim and defense in the matter. In July 2015, TVO updated its quantification estimate of its costs and losses to the amount of approximately EUR 2.6 billion until December 2018, which according to the schedule submitted by the OL3 supplier in September 2014 was the estimated start of regular electricity production of OL3.

In November 2016, the ICC Tribunal made a final and binding partial award. In the partial award, the ICC Tribunal addressed the early period of the project (time schedule, licensing and licensability, and system design). This comprised many of the facts and matters that TVO relies upon in its main claims against the supplier, as well as certain key matters that the supplier relies upon in its claims against TVO. In doing so, the partial award finally resolved the great majority of these facts and matters in favour of TVO, and conversely rejected the great majority of the supplier's contentions in this regard. The partial award did not take a position on the claimed monetary amounts.

The ICC Tribunal made another final and binding partial award in July 2017. This partial award addresses the preparation, submittal, review, and approval of design and licensing documents on the project. This comprises the key facts and matters that the supplier relies upon in its main claims against TVO, as well as certain matters that TVO relies upon in its claims against the Supplier. In doing so, the partial award has finally resolved the great majority of these facts and matters in favour of TVO. Conversely, it has also rejected the great majority of the Supplier's contentions in this regard. Although the partial award did not take a position on the claimed monetary amounts, it has conclusively rejected the analytical method used by the Supplier to support its principal monetary claims against TVO.

The parties received a final and binding partial award also in November 2017. This partial award addresses the execution and construction works and the overall project management of the OL3 EPR project. This comprises many facts and matters that TVO relies upon in its main claim against the Supplier, as well as certain matters that the Supplier relies upon in its claims against TVO. The partial award finally resolves many of the facts and matters concerning the execution of the construction works in favor of TVO and notably defers many of the issues raised by TVO including the Supplier's project management for determination in a subsequent award.

The arbitration proceeding is still going on and it now proceeds towards the final award where the Tribunal will declare liabilities to pay compensation.

In 2016, Areva announced a restructuring of its business. The restructuring plan involved a transfer of the operations of Areva NP to a company called New NP, the majority owner of which is going to be EDF. The transaction was completed at the end of 2017, and thereafter 75.5 percent of the shares of New NP were transferred to EDF. (New NP was renamed Framatome as of January 2018.) OL3 EPR project and the means required to complete the project, as well as certain other liabilities will remain within AREVA NP and AREVA GmbH, within the scope of AREVA SA. In January 2017, the EU Commission made a decision on the state aid, and in May 2017, the Commission accepted the merger. In September 2017, TVO filed an appeal to the General Court of the European Union of the Commission decision on French state aid to the AREVA Group. TVO requires that the restructuring of the French nuclear industry will not compromise the completion of the OL3 EPR project within the Supplier's schedule and that all liabilities of the plant contract are respected.

In addition to the litigations described above, some Group companies are involved in other routine tax and other disputes incidental to their normal conduct of business. Based on the information currently available, management does not consider the liabilities arising out of such litigations likely to be material to the Group's financial position.

## 21. Related party transactions

Related parties are described in the annual financial statements as of the year ended 31 December 2016. No material changes have occurred during 2017.

On 31 August 2016 Fortum finalised the acquisition of Ekokem Corporation (renamed as Fortum Waste Solutions Oy) with the four biggest owners, representing approximately 81% of the shares. The Finnish State was among the biggest owners with a 34%-shareholding in Ekokem.

At the year-end 2016 the Finnish State owned 50.76% of the shares in Fortum. There has been no change in the shareholding during 2017.

### Transactions with associated companies and joint ventures

EUR million	2017	2016
Sales	110	105
Purchases	472	536
Interest income on loan receivables	13	16

### Associated company and joint ventures balances

EUR million	Dec 31 2017	Dec 31 2016
Long-term interest-bearing loan receivables	864	886
Finance lease receivable from joint ventures	41	-
Trade receivables	24	20
Other receivables	17	17
Long-term loan payables	287	278
Trade payables	19	6
Other payables	7	6

## 22. Events after the balance sheet date

On 8 January 2018, E.ON SE announced that it had decided to tender its 170,720,340 Uniper SE shares (corresponding to 46.65% of shares and voting rights) into Fortum's public takeover offer. Furthermore, E.ON announced that the members of the E.ON Board of Management who have until now held Uniper shares privately will also tender all of their shares to Fortum under the voluntary public takeover offer.

On 19 January 2018, Fortum announced that 46.93% of the share capital and the voting rights in Uniper were tendered during the initial acceptance period of Fortum's voluntary public takeover offer for the outstanding shares of Uniper corresponding to 171,736,647 shares. The initial acceptance period ended on 16 January 2018 and the additional acceptance period resumed on 20 January 2018 and will end on 2 February 2018.

### 23. Definition of key figures

EBITDA (Earnings before interest, taxes, depreciation and amortisation)	=	Operating profit + depreciation and amortisation
Comparable EBITDA	=	EBITDA - items affecting comparability - net release of CSA provision
Items affecting comparability	=	Impairment charges + capital gains and other + changes in fair values of derivatives hedging future cash flow + nuclear fund adjustment
Comparable operating profit	=	Operating profit - items affecting comparability
Impairment charges	=	Impairment charges and related provisions (mainly dismantling)
Capital gains and other	=	Capital gains, transaction costs from acquisitions and other
Changes in fair values of derivatives hedging future cash flow	=	Effects from financial derivatives hedging future cash-flows where hedge accounting is not applied according to IAS 39.
Nuclear fund adjustment	=	Effects from the accounting of Fortum's part of the Finnish Nuclear Waste Fund where the asset in the balance sheet cannot exceed the related liabilities according to IFRIC interpretation 5.
Adjustment for Share of profit of associated companies and joint ventures	=	Adjustment for IAS 39 effects, major sales gains and impairment charges
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 useage/availability and/or maintains reliability. Productivity investments improve 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 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, %	=	$\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Capital employed average}} \times 100$
Comparable return on net assets, %	=	$\frac{\text{Comparable operating profit + share of profit (loss) in associated companies and joint ventures + adjustment for Share of profit of associated companies and joint ventures}}{\text{Comparable net assets average}} \times 100$
Capital employed	=	Total assets - non-interest bearing liabilities - deferred tax liabilities - provisions

### 23. Definition of key figures

Comparable 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 used for hedging future cash flows)	
Interest-bearing net debt	=	Interest-bearing liabilities - liquid funds	
Gearing, %	=	$\frac{\text{Interest-bearing net debt}}{\text{Total equity}} \times 100$	x 100
Equity-to-assets ratio, %	=	$\frac{\text{Total equity including non-controlling interest}}{\text{Total assets}} \times 100$	x 100
Comparable net debt / EBITDA	=	$\frac{\text{Interest-bearing net debt}}{\text{Comparable EBITDA}}$	
Interest coverage	=	$\frac{\text{Operating profit}}{\text{Net interest expenses}}$	
Interest coverage including capitalised borrowing costs	=	$\frac{\text{Operating profit}}{\text{Net interest expenses - capitalised borrowing costs}}$	
Earnings per share (EPS)	=	$\frac{\text{Profit for the period - non-controlling interests}}{\text{Average number of shares during the period}}$	
Equity per share	=	$\frac{\text{Shareholder's equity}}{\text{Number of shares at the end of the period}}$	
Effective income tax rate	=	$\frac{\text{Income tax expense}}{\text{Profit before income tax}}$	
Comparable effective income tax rate	=	$\frac{\text{Income tax expense - effects from tax rate changes}}{\text{Profit before income tax decreased by profits from associated companies and joint ventures as well as tax exempt capital gains or losses and major one time income tax effects}}$	

### Market conditions and achieved power prices

Power consumption				
TWh	Q4 2017	Q4 2016	2017	2016
Nordic countries	108	107	392	390
Russia	281	287	1,035	1,027
Tyumen	24	25	95	94
Chelyabinsk	9	10	33	35
Russia Urals area	69	71	261	259

Average prices				
	Q4 2017	Q4 2016	2017	2016
Spot price for power in Nord Pool power exchange, EUR/MWh	30.6	34.4	29.4	26.9
Spot price for power in Finland, EUR/MWh	33.0	37.5	33.2	32.4
Spot price for power in Sweden, SE3, Stockholm EUR/MWh	31.1	36.7	31.2	29.2
Spot price for power in Sweden, SE2, Sundsvall EUR/MWh	30.2	36.7	30.8	29.0
Spot price for power in European and Urals part of Russia, RUB/MWh <sup>1)</sup>	1,221	1,203	1,204	1,204
Average capacity price, tRUB/MW/month	577	556	535	481
Spot price for power in Germany, EUR/MWh	33.0	37.6	34.2	29.0
Average regulated gas price in Urals region, RUB/1000 m <sup>3</sup>	3,755	3,614	3,685	3,614
Average capacity price for old capacity, tRUB/MW/month <sup>2)</sup>	157	155	148	140
Average capacity price for new capacity, tRUB/MW/month <sup>2)</sup>	983	924	899	815
Spot price for power (market price), Urals hub, RUB/MWh <sup>1)</sup>	1,038	1,063	1,041	1,054
CO <sub>2</sub> , (ETS EUA), EUR/tonne CO <sub>2</sub>	7	6	6	5
Coal (ICE Rotterdam), USD/tonne	93	81	84	59
Oil (Brent Crude), USD/bbl	61	51	55	45

1) Excluding capacity tariff.

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

Water reservoirs			
TWh		Dec 31 2017	Dec 31 2016
Nordic water reservoirs level		86	75
Nordic water reservoirs level, long-term average		83	83

Export/import				
TWh (+ = import to, - = export from Nordic area)	Q4 2017	Q4 2016	2017	2016
Export / import between Nordic area and Continental Europe + Baltics	-4	-1	-15	-10
Export / import between Nordic area and Russia	2	2	6	6
Export / import Nordic area, Total	-2	1	-9	-4

Power market liberalisation in Russia				
%	Q4 2017	Q4 2016	2017	2016
Share of power sold at the liberalised price	82%	80%	81%	81%

Achieved power prices				
	Q4 2017	Q4 2016	2017	2016
Generation segment's Nordic power price, EUR/MWh	32.0	31.5	31.8	31.0
Russia segment's power price, RUB/MWh	1,845	1,818	1,813	1,734
Russia segment's power price, EUR/MWh <sup>1)</sup>	27.0	26.2	27.5	23.5

1) Translated using average exchange rate.

## Fortum's production and sales volumes

Power generation				
TWh	Q4 2017	Q4 2016	2017	2016
Power generation in Europe	12.0	11.5	46.6	47.5
Power generation in Russia	7.2	6.9	26.3	25.5
Power generation in other countries	0.1	0.0	0.3	0.0
<b>Total</b>	<b>19.3</b>	<b>18.4</b>	<b>73.2</b>	<b>73.1</b>

Heat production				
TWh	Q4 2017	Q4 2016	2017	2016
Heat production in Europe	3.0	2.5	8.6	7.1
Heat production in Russia	7.1	8.0	20.0	20.7
<b>Total</b>	<b>10.1</b>	<b>10.5</b>	<b>28.6</b>	<b>27.8</b>

Power generation capacity by segment				
MW			Dec 31 2017	Dec 31 2016
Generation <sup>1)</sup>			7,862	8,039
City Solutions			775	760
Russia			4,794	4,482
Other			292	53
<b>Total</b>			<b>13,722</b>	<b>13,334</b>

1) Including 308 MW of Meri-Pori power plant, which will be under reserve capacity agreement during period July 2017 - June 2020. Capacity decreases due to closure of unit 1 (205 MW) in Oskarshamn in end of June 2017.

Heat production capacity by segment				
MW			Dec 31 2017	Dec 31 2016
City Solutions			4,671	3,818
Russia			10,094	9,920
<b>Total</b>			<b>14,765</b>	<b>13,738</b>

Power generation by source in the Nordic area				
TWh	Q4 2017	Q4 2016	2017	2016
Hydro and wind power	5.7	4.2	20.9	20.8
Nuclear power	5.6	6.2	23.0	24.1
Thermal power	0.3	0.6	1.6	1.4
<b>Total</b>	<b>11.7</b>	<b>11.1</b>	<b>45.4</b>	<b>46.2</b>

Power generation by source in the Nordic area				
%	Q4 2017	Q4 2016	2017	2016
Hydro and wind power	49	38	46	45
Nuclear power	48	56	51	52
Thermal power	3	6	3	3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Power sales				
EUR million	Q4 2017	Q4 2016	2017	2016
Power sales in Europe	731	514	2,244	1,893
Power sales in Russia	226	206	837	691
Power sales in other countries	3	1	9	3
<b>Total</b>	<b>960</b>	<b>721</b>	<b>3,089</b>	<b>2,587</b>



### Fortum's production and sales volumes

Heat sales				
EUR million	Q4 2017	Q4 2016	2017	2016
Heat sales in Europe	194	156	524	449
Heat sales in Russia	87	81	258	199
<b>Total</b>	<b>281</b>	<b>238</b>	<b>782</b>	<b>648</b>

Power sales by area				
TWh	Q4 2017	Q4 2016	2017	2016
Finland	6.0	6.0	22.5	22.8
Sweden	8.5	7.0	30.8	28.8
Russia	8.4	7.9	30.5	29.5
Norway	4.6	0.4	7.2	1.5
Other countries	0.8	0.6	2.9	2.1
<b>Total</b>	<b>28.4</b>	<b>21.9</b>	<b>93.9</b>	<b>84.7</b>

NordPool transactions are calculated as a net amount of hourly sales and purchases at the Group level.

Heat sales by area				
TWh	Q4 2017	Q4 2016	2017	2016
Russia	6.8	7.7	19.8	20.7
Finland	1.2	1.4	3.9	3.6
Poland	1.2	1.4	3.7	3.6
Other countries	1.1	0.6	2.5	1.5
<b>Total</b>	<b>10.4</b>	<b>11.0</b>	<b>29.9</b>	<b>29.4</b>