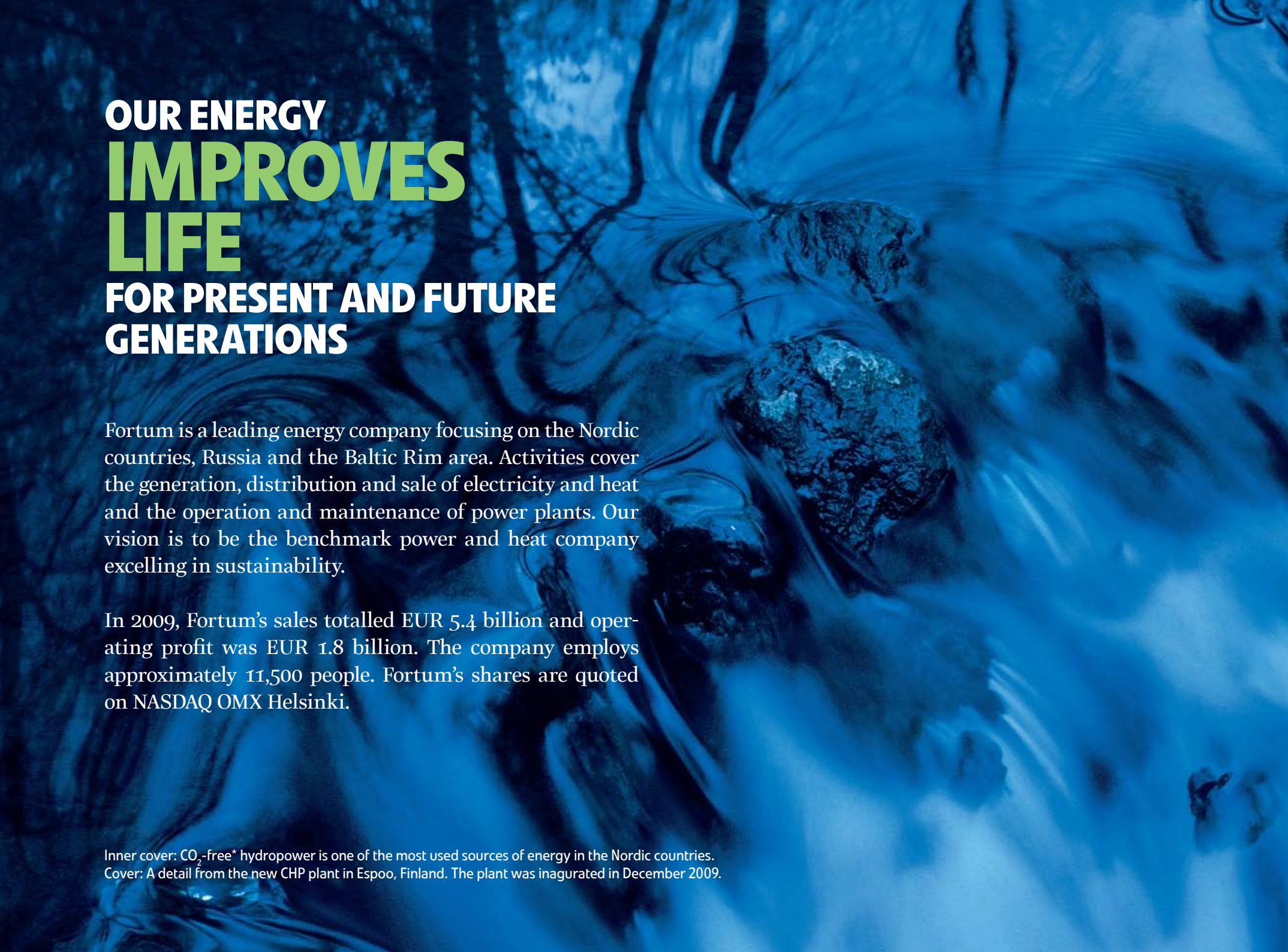


Delivering^{through} competence

Annual Report 2009





OUR ENERGY IMPROVES LIFE

FOR PRESENT AND FUTURE GENERATIONS

Fortum is a leading energy company focusing on the Nordic countries, Russia and the Baltic Rim area. Activities cover the generation, distribution and sale of electricity and heat and the operation and maintenance of power plants. Our vision is to be the benchmark power and heat company excelling in sustainability.

In 2009, Fortum's sales totalled EUR 5.4 billion and operating profit was EUR 1.8 billion. The company employs approximately 11,500 people. Fortum's shares are quoted on NASDAQ OMX Helsinki.

Inner cover: CO₂-free* hydropower is one of the most used sources of energy in the Nordic countries.
Cover: A detail from the new CHP plant in Espoo, Finland. The plant was inaugurated in December 2009.

Annual Report 2009

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**CO₂-free in this report refers to the emissions during the production of wind, hydro and nuclear power as well as production with biomass.*

Fortum in brief

Fortum focuses on the Nordic, Russian and Baltic Rim markets where it has developed a good platform for future growth.

 Distribution network



Norway

Heat sales	0.2 TWh
Distribution, customers	99,500
Share of electricity customers	2.7%
Employees	143

Sweden

Power generation capacity	5,885 MW
Heat sales	9.8 TWh
Distribution, customers	894,700
Share of electricity customers	11.4%
Employees	2,445

Finland

Power generation capacity	5,096 MW
Heat sales	8.0 TWh
Distribution, customers	610,700
Share of electricity customers	13.4%
Employees	2,700

Poland

Heat sales	3.7 TWh
Employees	756

Russia

Power generation capacity	2,785 MW
Heat sales	25.6 TWh
Employees	4,853

Estonia

Heat sales	1.0 TWh
Distribution, customers	24,100
Employees	357

Lithuania

Heat sales	0.1 TWh
Employees	72

Latvia

Heat sales	0.2 TWh
Employees	98

Group business structure

Power Division



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

Heat Division



The Heat Division consists of combined heat and power generation, district heating activities and business-to-business heating solutions.

Electricity Solutions and Distribution Division



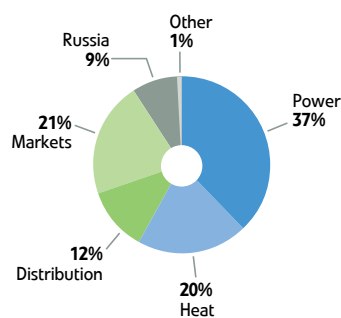
The Electricity Solutions and Distribution Division is responsible for Fortum's electricity sales, solutions and distribution activities. The division consists of two business areas: Distribution and Markets.

Russia Division

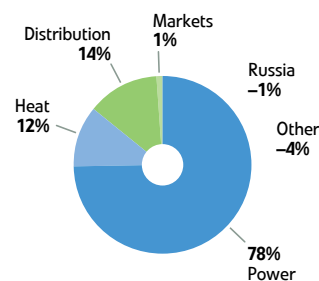


The Russia Division consists of power and heat generation and sales in Russia. It includes OAO Fortum and Fortum's over 25% holding in TGC-1.

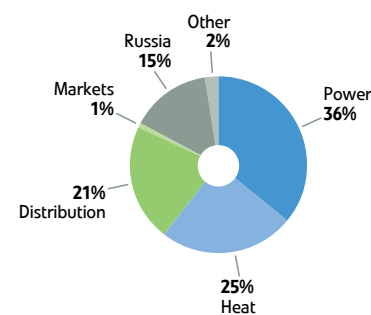
Sales, EUR 5,435 million



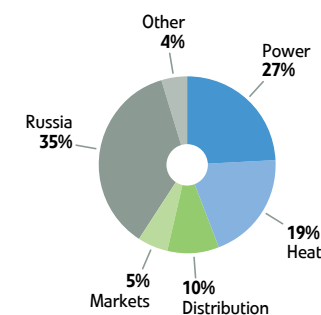
Comparable operating profit, EUR 1,888 million



Net assets, EUR 15,347 million



Employees, 31 Dec, 11,613



Financial summary

Key financial figures

EUR million or as indicated	2009	2008	2007
Sales	5,435	5,636	4,479
EBITDA	2,292	2,478	2,298
Operating profit	1,782	1,963	1,847
Comparable operating profit	1,888	1,845	1,564
Profit for the period, owners of the parent	1,312	1,542	1,552
Capital employed	15,350	15,911	13,544
Interest-bearing net debt	5,969	6,179	4,466
Net debt / EBITDA ⁽¹⁾	2.6	2.5	2.2
Return on capital employed, % ⁽¹⁾	12.1	15.0	14.0
Return on shareholders' equity, % ⁽¹⁾	16.0	18.7	15.8
Capital expenditure	862	1,108	655
Gross investments in shares	67	1,516	317
Net cash from operating activities	2,264	2,002	1,670

⁽¹⁾ Adjusted for REC and Lenenergo gains in 2007

Share key figures

EUR or as indicated	2009	2008	2007
Earnings per share	1.48	1.74	1.74
Cash flow per share	2.55	2.26	1.88
Equity per share	9.04	8.96	9.43
Dividend per share	1.00 ⁽¹⁾	1.00	1.35
Payout ratio, %	67.6 ⁽¹⁾	57.5	77.6
Dividend yield, %	5.3 ⁽¹⁾	6.6	4.4

⁽¹⁾ Board of Directors' proposal for the Annual General Meeting on 25 March 2010

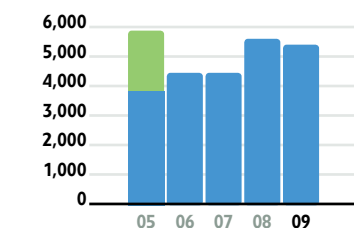
Key figures by division / business area

EUR million or as indicated	Sales			Comparable operating profit			Comparable RONA%		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Power	2,596	2,892	2,350	1,469	1,528	1,095	26.6	28.0	18.9
Heat	1,394	1,466	1,356	227	250	290	7.2	7.3	9.2
Distribution	800	789	769	262	248	231	8.6	8.2	7.6
Markets	1,449	1,922	1,683	22	-33	-1	18.6	-15.3	-0.6
Russia	623	489	-	-26	-92	-	-0.3	-3.8	0.0
Other	74	83	81	-66	-56	-51	-18.7	-1.7	-2.1
Eliminations	-1,501	-2,005	-1,760	-	-	-			
Total	5,435	5,636	4,479	1,888	1,845	1,564			

Operating profit excluding non-recurring items, fair value changes of derivatives not getting hedge accounting and nuclear fund adjustment.

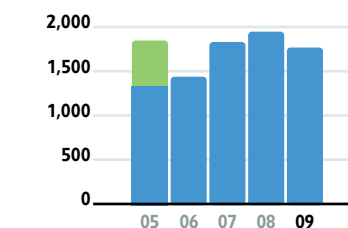
Comparable operating profit plus profit from associated companies divided by comparable net assets.

Sales, EUR million



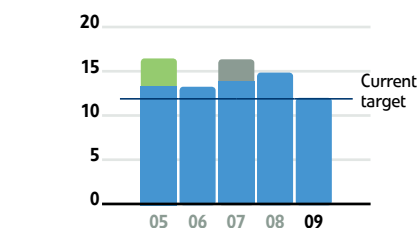
Discontinued oil operations

Operating profit, EUR million



Discontinued oil operations

Return on capital employed, %

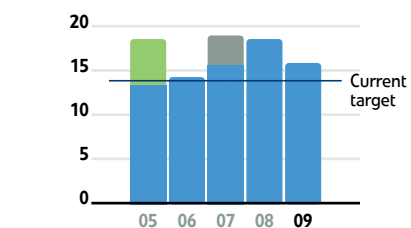


Discontinued oil operations
Incl. REC and Lenenergo gains

+ Key financial figures for the years 1998–2009 are presented in the Financial Statements, see pages 174–175.

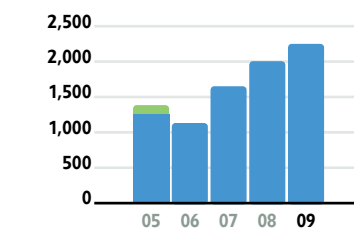
+ Definitions for the key figures are included on pages 179–180 in the Financial Statements.

Return on shareholders' equity, %



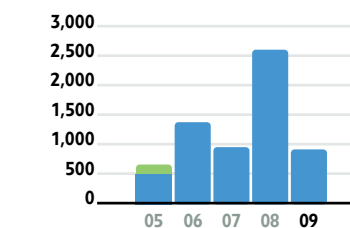
■ Discontinued oil operations
■ Incl. REC and Lenenergo gains

Net cash from operating activities, EUR million



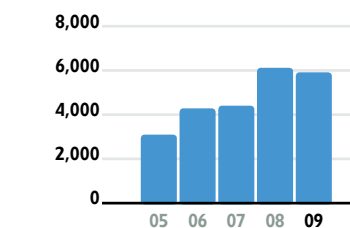
■ Discontinued oil operations

Capital expenditure and gross investments in shares, EUR million

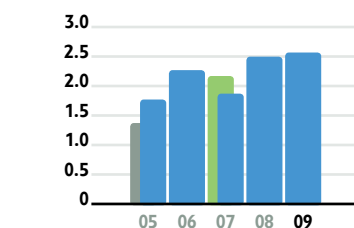


■ Discontinued oil operations

Interest-bearing net debt, EUR million

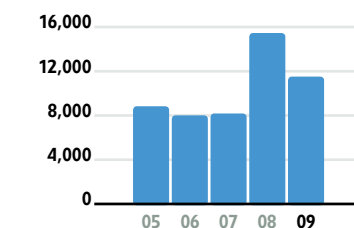


Net debt / EBITDA



■ Continuing operations
■ Adjusted with Lenenergo gains
■ Total, incl. discontinued oil operations

Number of employees, 31 Dec



Share quotations 2005–2009, Index 100 = quote on 3 January 2005



— Fortum (Neste Oil spin-off adjusted)
— DJ European Utilities
— OMX Helsinki Cap

COMPETENCE: WE ARE STRONG IN PRODUCTION

One of Fortum's key strengths lies in our generation portfolio. Thanks to the versatility and flexibility of our portfolio, we are able to plan our trading and production efficiently, economically and in a climate-benign way. The availability of our power plants is top-class by international standards and we are very proud of the fact that our specific emissions from power generation are among the industry's lowest: in 2009, 91% of Fortum's power production was CO₂-free in the EU.

We are internationally recognised for our strong expertise in nuclear power. Our thorough know-how in plant management, nuclear safety and spent nuclear fuel – to name only a few – has ensured the high-level performance of our nuclear power plant in Loviisa, Finland, for already three decades. In addition, the consulting and engineering services provided by our dedicated Nuclear Engineering unit in all fields of nuclear technologies are appreciated by our associated nuclear power companies and clients around the world.

Anni Nurmela, Manager, Nuclear Engineering





COMPETENCE: WE ARE EXPERTS IN THE POWER MARKET

Making smart moves on the Nordic and Russian power markets is a key component to Fortum's success. That's why we carefully analyse the development of fuel and CO₂ allowance prices as well as the global economic development. Our intelligence work forms the basis of our success, all the way from the trading desk to Fortum's strategy development and investment planning.

We believe that an efficient, market-driven energy market increases security of supply and competition that in turn enable competitive energy pricing. It is also a prerequisite for reaching the European climate targets cost-efficiently. To advance this goal, Fortum has actively promoted the market-based development of the Nordic power market for over a decade and participated in building and shaping the Russian power market. In the coming years, we look forward to leveraging the experience we have accumulated also in the integrating European electricity markets.

Johan Linnarsson, Chief Analyst,
Trading and Industrial Intelligence





COMPETENCE: WE ARE FORERUNNERS IN CLIMATE-BENIGN R&D

As an energy company, it is our responsibility to contribute to the mitigation of climate change. That's why we make it a priority to develop our expertise in energy technology and support the transition to a largely carbon dioxide-free energy system. Our long-term goal is to be fully CO₂-free. We strongly believe that mitigating climate change is also a commercial success factor for forerunners.

We are focusing on developing carbon capture and storage (CCS), co-generation of heat and power in a nuclear power plant, as well as researching ways to increase the use of renewable energy sources. We also believe that development of sustainable societies is fundamental in the battle against climate change. This is why smart grids and electric vehicles are an essential part of our research and development activities.

Mikko Iso-Tryckäri, Manager,
Business Development





COMPETENCE: WE KNOW RUSSIA

Fortum has been involved in the Russian energy business for over 50 years and has actively participated in shaping the Russian power market model. Already over a decade ago, Fortum acquired a share in TGC-1 in the northwest Russia and in spring 2008, the company I work for, OAO Fortum, in the Urals region.

The power sector liberalisation has proceeded as planned, and we are committed to making our Russian operations a success. Our efficiency improvement programme is well on track to reach the targeted annual efficiency improvements of EUR 100 million in 2011. We have successfully adopted the Fortum way of working and joined forces with our Nordic and Baltic colleagues to improve business. We have especially benefitted from our shared expertise in CHP production and are very proud of the fact that with the acquisition of the Russian assets, Fortum became the world's 4th largest heat producer.

Venera Gatina, Head of Construction and Technical Development, Urals Heat Networks, OAO Fortum







**OUR POWER PRODUCTION IN THE EU
IS 91% CO₂-FREE**

Hydropower accounts for over one third of Fortum's annual power generation and is a clean energy source that does not contaminate the climate, water or soil. The picture is taken at one of Fortum's small-scale hydropower plants on the Mustionjoki river in southern Finland. The plant's capacity is 6.5 MW electricity.

CHAPTER 1 FORTUM IN 2009

Jan

Feb

Mar

Apr

May

Jun

Jul

Aug

Sep

Oct

Nov

Dec

MAR 17
Fortum issues EUR 1.5 billion dual tranche Eurobonds

APR 17
Fortum and Polish PGE start cooperation on CCS technologies

MAY 1
Tapio Kuula new President and CEO of Fortum Corporation

JUN 15
Fortum obtains a EUR 250 million loan from the European Investment Bank

JUL 21
Fortum selects a contractor for construction works at its Nya-gan green-field project in Russia

SEP 3
Fortum included in the Dow Jones Sustainability Index

OCT 1
Fortum reorganises its organisational structure

NOV 13
Fortum and ABB to start R&D cooperation in smart grids

DEC 10
The inauguration of Fortum's new CHP plant in Espoo, Finland

DEC 15
Fortum, TVO and Maersk join forces to develop a ground-breaking Carbon Capture and Storage project

DEC 16
Fortum enters the Polish electricity market

DEC 17
Fortum to divest its shares in Swedegas to EQT Infrastructure



JAN 15 Fortum and Göteborg Energi to cooperate in improving energy efficiency

JAN 15 Fortum and Infratek combine their infrastructure operations



FEB 5 Fortum submits application for the construction of a new nuclear power plant unit in Loviisa, Finland

FEB 23 Fortum renews its pricing in Finland – the prices of the current-priced “Kesto” contracts are updated four times a year

FEB 26 Fortum re-ranked the most responsible energy company in Storebrand's global ‘Best in Class’ report



JUN 30 Fortum and Mitsubishi team up to promote electric motoring

JUL 31 Fortum sells its power plant in Kokkola, Finland



MAY 4 Fortum and Seabased Energy submit an application for investment support of a full-scale wave power site off the Swedish west coast

MAY 5 First electric taxi to start service in Helsinki metropolitan area

MAY 11 Fortum and Metso in R&D cooperation around oxyfuel combustion technology

MAY 26 Fortum and Skanska in cooperation around sustainable cities of the future

MAY 29 Fortum sells its Central Finland peat production to Vapo

MAY 29 The inauguration of Fortum's new CHP-plant in Tartu, Estonia



AUG 6 Fortum and Valmet Automotive partner to develop electric car technology



AUG 28 Fortum signs contract to invest EUR 170 million in automatic meter management in Finland



OCT 14 Fortum and TVO to cooperate with Siemens Energy in the field of CCS



NOV 25 Fortum to initiate EIA procedures for five wind turbines on the island of Bergö in Maalahti municipality in Finland

NOV 30 Metso, Fortum, UPM and VTT are jointly developing a clean energy alternative with domestic bio-oil

Interview with the President and CEO

In 2009, Fortum was able to weather the turbulent times and once again deliver good results. The company focused on operational performance and began reorganisation to prepare for future opportunities under the new President and CEO Tapio Kuula.

Going into the new decade, what are Fortum's strengths, President and CEO Tapio Kuula?

In power and heat production, our strengths are in our production portfolio that supports sustainability and utilises renewable and low-carbon energy sources. The diversity of our portfolio and our solid energy market expertise ensure price competitiveness and flexibility in fluctuating market situations. Furthermore, Fortum has longer experience operating in Russia compared to many other Western energy companies, a fact that the OAO Fortum acquisition has accentuated. It has already helped us advance with our goals as planned.

You have been part of the management team building Fortum for already more than a decade. As the President and CEO, how will you make the company even better?

My aim in my new role has been to make our organisation leaner and more efficient. Our new organisation took effect 1 October 2009; it allows us to more effectively confront the changes that take place in our operating environment. The four divisions of the new busi-

ness structure provide better possibilities for more efficient decision-making and for steering operations, in turn making it possible to operate more flexibly in the markets.

In 2010 we intend to carefully analyse the kinds of opportunities and challenges the energy sector will offer Fortum in the future.

What were the most significant changes in the operating environment in 2009?

2009 demonstrated that Finland and Europe are not isolated islands unaffected by global economic cycles. The recession resulted in an approximately 5% decrease in electricity consumption in the Nordic market in 2009. In this situation, developing the industry's competitiveness becomes even more essential. Increasing the efficiency of the energy markets and responding to the challenges of climate change require market-driven integration and a coherent energy policy throughout the European Union. Among other things, harmonising the various national support systems would be central, since the energy market is no longer national or regional but increasingly European. A European-wide wholesale market for

electricity benefits everyone because it increases competition, improves security of supply, and enables the achievement of climate goals at the lowest possible cost for society.

How would you evaluate Fortum's financial performance in 2009?

We can be satisfied with Fortum's 2009 financial performance. Despite the changes in the operating environment, our profitability remained at a good level. We improved our operational performance from a year ago and Fortum's comparable operating profit increased clearly in the last quarter of the year. Fortum's balance sheet was strong, net debt to EBITDA was 2.6. A strong balance sheet and good profitability are important to Fortum – they help us to ensure that we can implement our strategy flexibly, carry out our investments, and be ready also to seize new opportunities when they arise.

Russia has suffered from the financial crisis. How will Russia be turned into a success story for Fortum?

Russia's economy will recover faster than many European economies. For

"IN 2010 WE WILL ANALYSE THE OPPORTUNITIES AND CHALLENGES THE ENERGY SECTOR OFFERS."



Fortum, an important factor is oil demand and price development because we operate in Russia in the oil- and gas-producing Tyumen region. Additionally, the global outlook for the heavy metal industry is considerably more positive than it was in autumn 2009, which boosts demand in Chelyabinsk, another production area that is important for us. This creates the confidence that our Russia Division's results will be at a clearly positive level in 2010, as we have stated earlier.

Despite the recession, Russian power sector reform has progressed according to plans. At the turn of the year the share of electricity for wholesale markets was increased by another 10%, so now a total of 60% of the electricity is sold in the deregulated wholesale markets. The Russian authorities have announced that the wholesale market will be fully liberalised at the beginning of 2011.

The Climate Conference in Copenhagen was widely considered a disappointment. How would you estimate its impacts?

There were no concrete commitments achieved in Copenhagen, but the importance of reducing emissions, however, is recognised globally. In addition to the EU, big emitters of greenhouse gases, like China and the United States, are committed to mitigating climate change, so purposeful efforts will continue on a wider front than before. This will change also the energy sector's operating outlook.

One implication is the growing need to improve energy efficiency. The relative share of electricity in total energy consumption will grow significantly when it replaces other energy use. Consequently, total energy consumption and emissions will decrease. In this respect, Fortum is well positioned to respond to future challenges because sustainability is one of our cornerstones, and as much as 91% of our power generation in the EU is CO₂-free.

Industry's electricity consumption decreased in the Nordic countries, and some estimates suggest that the change will be permanent. So, will we need more nuclear power?

Additional nuclear power is needed for many reasons. First of all, demand for electricity will continue to grow despite last year's decrease. The recovery in manufacturing will affect short-term growth in electricity consumption. The increase in electricity's relative share of

total energy consumption will accelerate growth in the long term. In addition to renewable energy, other climate-benign electricity production, like nuclear power, are also needed to cover demand.

Another key reason is that a significant share of our nuclear power plants will reach the end of their service life, and their production must be replaced. Because of the harmfulness of greenhouse gases, nuclear power is an extremely attractive and competitive alternative. The realisation of Loviisa 3 as a combined heat and power plant offers an unprecedented opportunity to even further reduce CO₂ emissions. I think this is an opportunity that must not go unused.

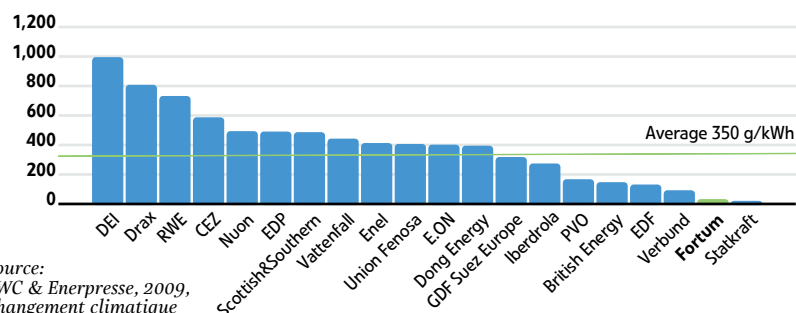
As the new President and CEO, you have the opportunity to develop the company's strategy and further strengthen Fortum's position. How will you continue your development work?

I am very pleased with the positive development in last year's customer

satisfaction figures. Fortum's reputation has improved and our investments in sustainability have received recognition. Also our number of shareholders increased significantly last year: Fortum currently has almost 90,000 shareholders. In my view, this is an indication of the level of interest in the company, and, in fact, we will do everything we can to ensure that Fortum's share is – and will continue to be – worth buying and owning.

We have initiated goal-oriented development work in conjunction with the new organisation, and we will focus on strategic issues at great length during the year. I would like to thank our employees for their dedication and willingness to make Fortum an even better company in the challenging operating environment. Thanks are also owed to our customers and partners for a successful year. We are in a good position to move forward.

Fortum's carbon exposure among the lowest in Europe, gCO₂/kWh electricity, 2008



Source:
PWC & Enerpresse, 2009,
Changement climatique
et Electricité.

Group financial targets

	Target	2009	2008
ROCE, %	12	12.1	15.0
ROE, %	14	16.0	18.7
Capital structure: Net debt / EBITDA	3.0–3.5	2.6	2.5

Strategy

Focusing on the power and heat business in the Nordic, Russian and Baltic Rim areas and consistently developing a CO₂-free and flexible production portfolio have been the cornerstones of Fortum's strategy for the past decade. As a market-driven player, we have actively promoted the development of open energy markets.

Fortum's vision is to be the benchmark power and heat company excelling in sustainability. Our vision reflects our strong commitment to operational excellence in all our activities as well as in our view that sustainability – where economic, social and environmental responsibilities are in balance – is a success factor for the company. The strategic ambition is directly reflected also in Fortum's core purpose: "Our energy improves life for present and future generations." Our core purpose and values guide all Fortum operations.

Market-driven production company

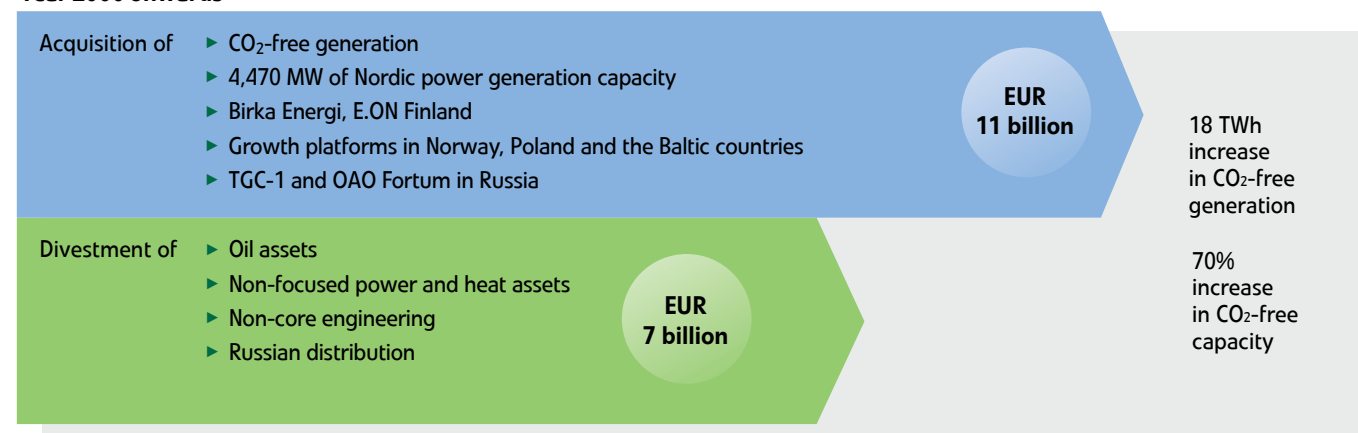
Climate change, limited natural resources and long-term increasing energy demand present big challenges also for the entire energy sector. As a responsible player, Fortum is actively pursuing solutions to these challenges. We have consistently developed our production portfolio with a focus on low emissions and flexibility. Consequently, the portfolio mainly consists of CO₂-free nuclear and hydro-power, and energy-efficient combined heat and power (CHP) production. As a result, our specific emissions from power production are amongst the lowest in the sector in Europe. We believe that the structure of our production portfolio

will be fundamental to our success also in the future. Our ongoing investment programme in the EU is 95% CO₂-free. In Russia, where Fortum's production is based mainly on natural gas, we are committed to improving the energy efficiency of our plants and networks and thus reducing electricity and heat production's environmental impacts in the future.

We think that responsibility also involves producing energy and reducing emissions in ways that are the most economical in terms of total costs to society. In Fortum's view, this goal is best supported by competitive internal energy markets and by market-driven support

The strategy has been implemented consistently

Year 2000 onwards



mechanisms to achieve the renewable energy targets. Fortum has been actively involved in supporting market-driven development of the Nordic electricity markets for more than a decade, and has participated in developing the Russian electricity markets. We believe that this experience is a success factor for the company in the integrating European energy markets.

Competitive advantage from new technologies

Fortum believes that the mitigation of climate change offers opportunities for forerunners. We are carrying out research regarding future emissions-free and renewable production forms, such as wave energy and new biofuels, and possibilities to reduce emissions in fossil-based production e.g. through carbon capture and storage technologies. Implementing the planned, new Loviisa nuclear power plant unit as a combined heat and power plant would offer an unprecedented opportunity to reduce CO₂ emissions. Loviisa's location in the vicinity of the Helsinki metropolitan area could enable wide utilisation of district heat, and the timing for the completion of the new nuclear power plant unit is well suited in terms of decisions to replace the aging coal- and gas-fired power plants in the 2020s.

The tightening energy-efficiency requirements will increase electricity competitiveness against other energy

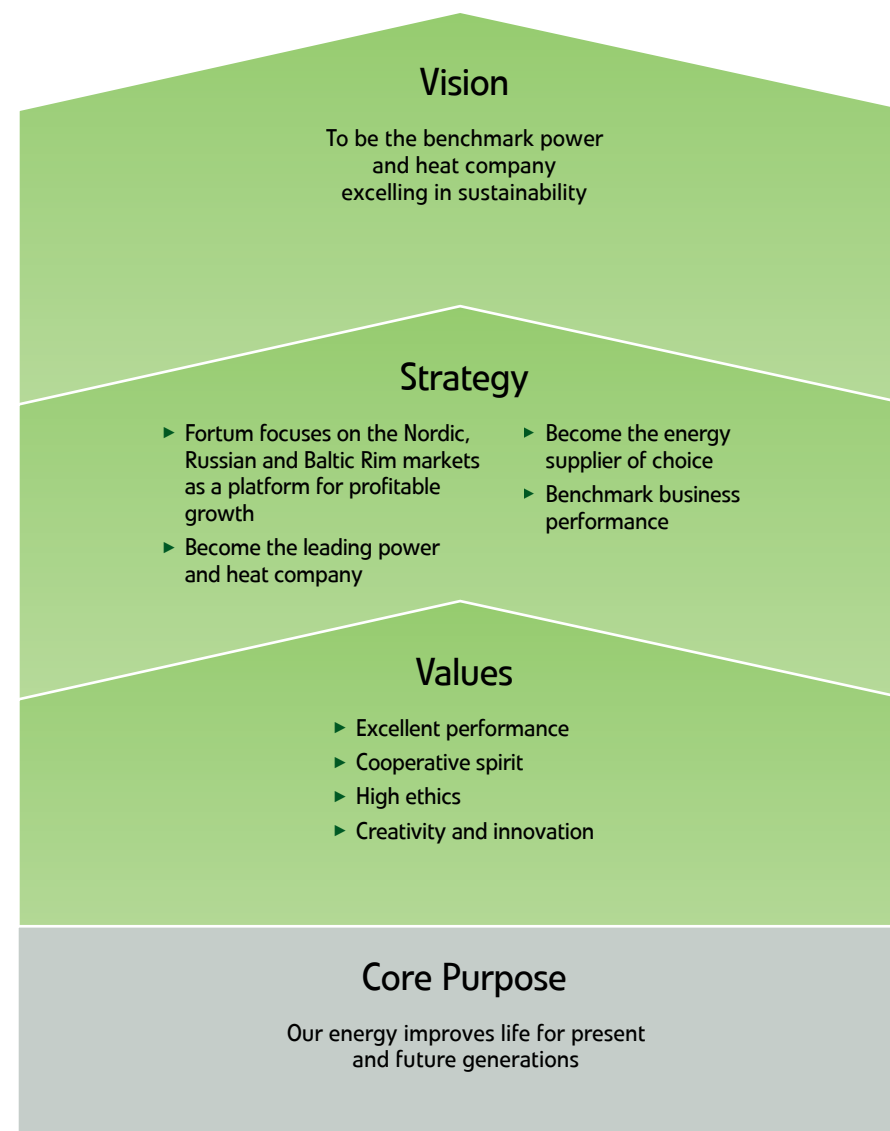
Fortum's compass

OUR VISION reflects our strong commitment to performance excellence in all areas of operation. It conveys our belief that mitigating climate change is a success factor for forerunners.

FORTUM'S STRATEGY defines our market area and the elements that will enable Fortum to continue on a profitable growth track also in the future.

SHARED VALUES guide the way we work at Fortum as well as how we interact with each other and with our partners and stakeholders.

THE CORE PURPOSE summarises the ultimate reason for Fortum's existence.



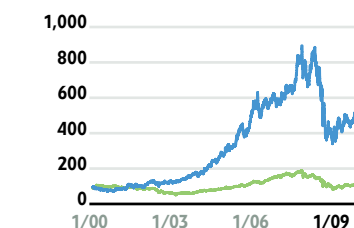
forms and significantly increase electricity's share in total energy consumption. When electricity is used in place of other energy, the total energy demand will decrease and also emissions can be reduced. Examples of this development work are low-energy buildings or the use of electricity in transportation. Fortum's goal is to enable the mainstream adoption of electric vehicles in a fast timetable by offering consumers recharging points and by engaging in broad collaboration with different players in this field.

Aiming for operational excellence

Striving for efficiency, accountability and continuous improvement of operations

is characteristic for Fortum. We want to achieve benchmark results in all our business and support operations. To meet our goal for operational excellence, we renewed and streamlined our organisational structure in 2009. The new structure helps Fortum to focus on strategic priorities and to prepare for future challenges and growth.

Fortum's share price since 2000, index

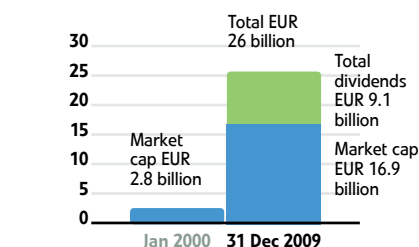


■ Fortum¹⁾
■ DJ European Utilities

¹⁾ Neste Oil spin-off adjusted

Fortum's share has outperformed its European utility peers during last six years. During 2009, Fortum's share price appreciated approximately 23%, while Dow Jones European Utility index decreased 1% and OMX Helsinki Cap index increased 31%.

**Total shareholder value increase
EUR 23.2 billion, EUR billion**



■ Market capitalisation
■ Neste Oil shares EUR 3.3 billion
and cash dividend EUR 5.8 billion

Strategic agenda

The annually updated strategic agenda supplementing the Fortum Compass defines the focus areas of operations. This ensures that development throughout the company is moving in the same direction and is in line with the vision and strategy. Each division's business plans, decisions and operations reflect the strategic agenda as relevant for the division.

Focus on performance excellence and risk management

- ▶ Secure financial freedom – focus on profit and cash flow
- ▶ Establish and maintain benchmark performance in key areas
- ▶ Manage strategic and business risks
- ▶ Engage people

Develop the business model and organisation

- ▶ Finalise new organisation

Manage reputation, public relations and regulation

- ▶ Develop Fortum's image
- ▶ Promote market-driven development of the energy market
- ▶ Safeguard business model to ensure viability of regulated businesses

Find growth from R&D and new business opportunities development

- ▶ Carbon capture and storage, electricity in transportation, energy efficiency solutions
- ▶ Establish strategic partnerships to drive development

Establish readiness for growth and next strategic steps

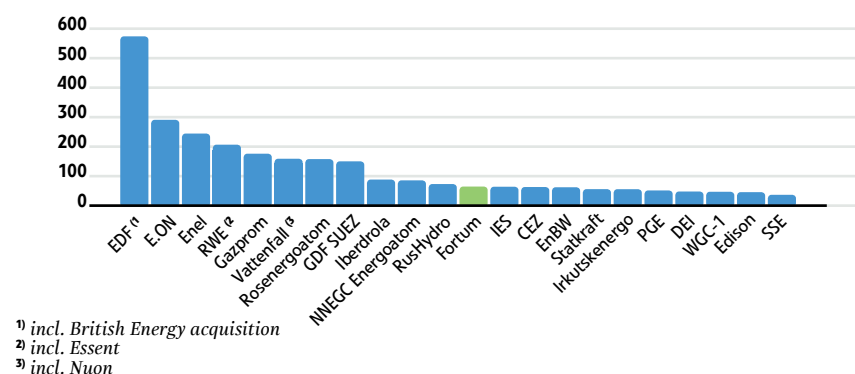
An aerial photograph of Stockholm, Sweden, taken at sunset. The city's architecture, including numerous churches with spires, is silhouetted against a warm, orange and yellow sky. The city is built on islands and connected by bridges, with a body of water in the foreground. The text is overlaid on the lower left portion of the image.

**IN THE CITY OF STOCKHOLM,
SPECIFIC EMISSIONS OF NITROGEN
OXIDES HAVE DECREASED BY 51%
AND SPECIFIC SULPHUR DIOXIDE EMISSIONS
BY 87% SINCE 1990**

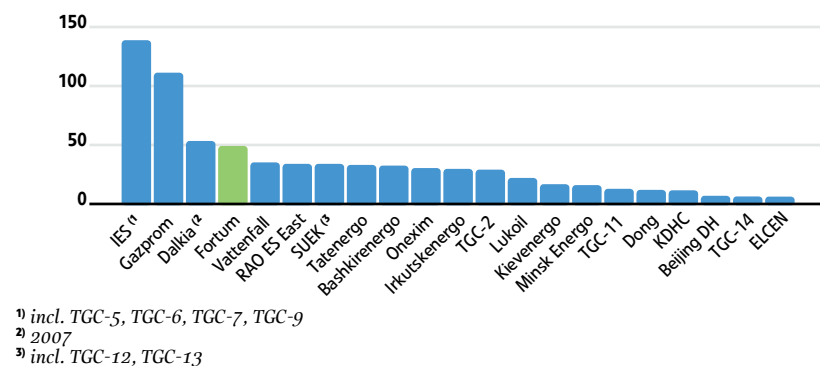
The City of Stockholm has undertaken several ambitious initiatives and driven developments to reduce its climate impact. Hammarby Sjöstad in Stockholm is a residential area developed by Fortum, Stockholm Water Company and the Stockholm Waste Management to demonstrate a common eco-cycle model. The district has imposed strict environmental requirements on buildings, technical installations and the traffic, from day one.

CHAPTER 2 THE WORLD AROUND US

Largest European and Russian power generators, TWh/a

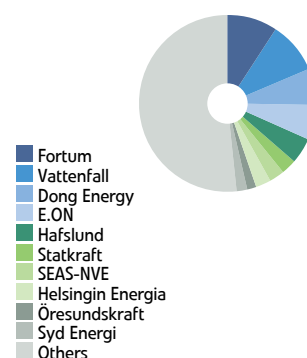


Largest global heat producers, TWh/a



Largest Nordic retail companies

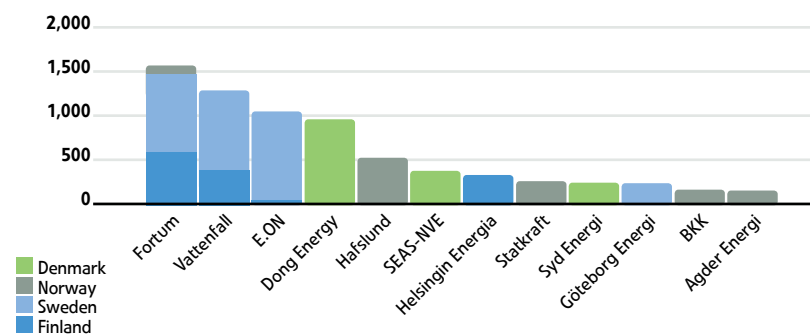
~350 active companies, 14 million customers



Global demand and trade volumes started to decline in autumn 2008, which reflected in falling energy prices. The decline stabilised in early spring 2009. In the latter part of the year, some cautious recovery was visible globally and energy prices started to recover. The European Union's internal energy market package was approved in summer 2009 and the Russian electricity liberalisation progressed as planned despite the recession. The international negotiations on climate change mitigation accelerated and culminated in the UN Climate Conference in Copenhagen in December.

Largest Nordic distribution companies, thousand customers

~ 500 companies, 14 million customers



Market development

The global financial crisis reached its turning point in spring 2009, but the global demand remained weak the full year out. In the latter part of the year, some cautious recovery in industrial production was visible, encouraged by the fiscal stimulus measures.

The recession was a hard blow to European export-driven economies, such as Finland, Sweden and Germany. Norway also suffered from lower export prices of oil and gas. Early in the crisis, the Swedish and Norwegian currencies depreciated against the euro, which slightly improved the competitiveness of these countries in 2009. The power-intensive industry in the Nordic area suffered from poor export demand through the year. This was reflected in low capacity utilisation of production. Especially in Finland, industrial electricity consumption was also heavily affected by the continued structural change of the forest industry.

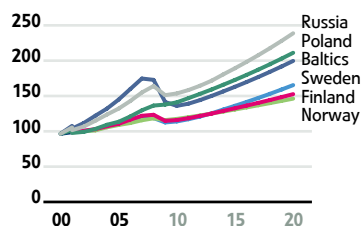
Electricity consumption in the Nord Pool area fell by 5%, mainly due to the decline in industrial consumption. The largest drop appeared in Finland, where demand fell by 7%. In Sweden the demand decreased by 5% and in Norway by 5%. Danish demand declined by 4%. The yearly average Nord Pool system price was 35 euro per megawatt-hour (MWh) down by 22% from the previous year.

The Russian economy proved to be more cyclical than the Nordic economies during the financial crisis. When commodity prices fell, the Russian total production declined by a tenth in spring 2009. Also the rouble was devaluated by nearly a third in early spring.

However, the Russian economy started to recover briskly in autumn 2009 in line with appreciating commodity prices and demand.

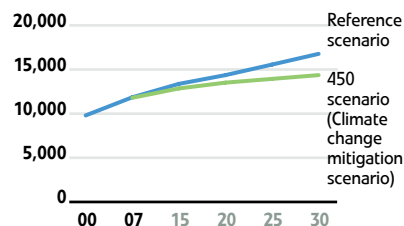
Electricity consumption in Russia declined by 5% in 2009 compared to 2008. Over the year, regional differences in electricity demand were considerable. In the Tyumen area, which is dominated by the oil and gas industry, the total electricity consumption remained the same as in 2008, while in the metals industry-dominant Chelyabinsk area, consumption fell by 11% in 2009. In north-western Russia, electricity consumption declined by 3% in 2009. The average electricity spot price, excluding capacity price, in the European

Economic recovery in Fortum's market area, GDP as index: 2000=100



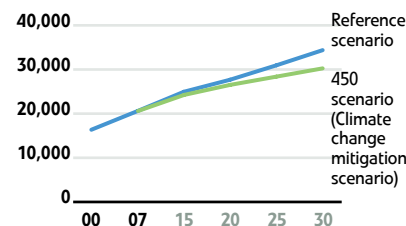
Source: IMF World Economic Outlook (October 2009) to 2014, and average 2013–2014 growth for period 2015–2020

World primary energy demand, Mtoe/a



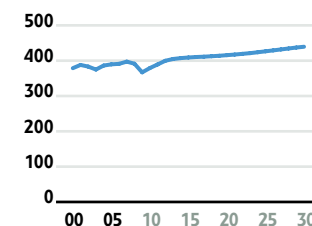
Source: IEA WEO 2009. Note: scale is not linear

World total electricity generation, TWh/a



Source: IEA WEO 2009. Note: scale is not linear

Nordic electricity demand, TWh



Source: Fortum analysis

and Urals part of Russia declined to RUB 666 (708) per MWh in 2009.

The recovery to pre-crisis production levels in Fortum's market area will depend on the speed of global recovery and demand. In 2009, only some large Asian economies such as China and India managed to present good growth figures, which underpins growth in demand in some commodities, such as metals. The developed nations showed cautious signs of recovery in late autumn 2009.

Due to the recession, global primary energy use fell in 2009 for the first time since 1981. The International Energy Agency (IEA) expects energy demand to recover in 2010, and after that to depend on the scale of climate change mitigation regulation being agreed on for the post-Kyoto period. The IEA estimates in its reference scenario that world electricity demand will grow by 2.5% annually to 2030. For climate change to be limited to 2 degrees Celsius, power generation has to move towards low-carbon emitting or carbon-free generation capacity.

Climate change mitigation

International negotiations on global climate change mitigation culminated in the UN Climate Conference in Copenhagen in December 2009. To the disappointment of many, the conference led only to a political declaration, the so-called Copenhagen Accord, in which the world's political leaders acknowledged the need to limit climate change to

2 degrees Celsius, but no binding emissions reduction targets were agreed upon. Countries were requested to announce their emissions reduction targets by the end of January 2010. National commitments were received by 55 countries, which account for 78% of global emissions from energy use. Negotiations will continue in 2010. The continuation of the climate negotiations represents a continuation of the uncertainty about climate policy. In Fortum's view, a global price for carbon and a global emissions trading market should be set. Now the uncertainty on post-Kyoto mechanisms after 2012 will also continue.

For the European Union, forerunnership in climate change mitigation remains a high priority. In the Copenhagen Accord, the EU interpolated its earlier target to reduce emissions by 20% from 1990 levels by 2020. However, the EU has signalled that if other major emitters agree to further emissions cuts, the EU will reconsider its ambition level to a 30% reduction target. The emissions trading sector will be subject to most of the increased burden.

In the EU, the implementation of the Directives of the Climate and Energy Package started in 2009, including the preparations of the auctioning rules of allowances and of the benchmarking rules for free-of-charge allocation in the emissions trading system for the period 2013–2020. Based on the revised emissions trading directive, the trading

system will be harmonised throughout the EU. Most of the power production will be subject to full auctioning of allowances starting in 2013. Heat production will partly receive free allowances based on EU-wide benchmarks until 2027. Some industrial sectors especially vulnerable to carbon leakage may receive free allocation until 2020.

A price on carbon emissions established through Cap-and-Trade Systems (CTS) is considered the most economic way of reducing emissions. The EU has proposed an OECD-wide carbon market through the linking of CTS by 2015 and an extension to the most advanced developing countries by 2020. US legislation on national CTS is likely to be approved in 2010. Proposals for emissions trading exist also, e.g. in Japan and Australia.

In the framework of the emissions trading directive in March 2009, it was agreed that 300 million allowances will be used to finance large-scale carbon capture and storage (CCS) demonstration projects as well as innovative renewables. In October 2009, the Commission proposed seven CCS projects to receive financing from the EU economic recovery funds. The projects for the EU's CCS demonstration programme (European Flagship Programme) are to be selected in 2011. Fortum is aiming at including Meri-Pori's CCS plant within the framework of the programme in cooperation with TVO.

Many actions to tackle climate change were taken also at the Nordic level.

The Swedish government upgraded its climate and energy policy in February 2009. Sweden is reconsidering its position on nuclear and aims to increase emphasis on renewable energy production and energy efficiency. The government abandoned the earlier phase-out plan of nuclear power in Sweden and is considering replacing old nuclear reactors with new ones as they retire. The bill also contained a number of adjustments to energy taxes, scheduled to take place in 2010 or 2011.

In September 2009, Sweden and Norway agreed to establish a common market for green electricity certificates to be operational from January 2012. This new scheme will be technology-neutral and accompanied by "extensive development" of new transmission and distribution networks to cope with the expected increase in renewable electricity generation. Fortum endorses this initiative, as a market-based green certificate system is the most efficient way, apart from Emissions Trading Systems (ETS), to introduce renewable generation with the lowest cost for customers and societies as a whole.

In Finland, the government is instead planning to introduce a feed-in tariff system for wind and biogas power. This approach is likely to be much more expensive for society than the green certificate model. In April 2009, the Finnish Ministry of Employment and Economy proposed a market-based guaranteed feed-in tariff system for wind

power and biogas and the tariff would be paid for 12 years by electricity consumers. Also, in March 2009, the Finnish government agreed to start preparing a tax for the so-called windfall profits of energy companies. This could mean that old hydro and nuclear generation would be subject to taxation from 2011.

In Russia, a law on energy efficiency was adopted in October 2009. The law introduces the legal, economic and institutional framework for promoting energy-saving technologies in Russia.

Throughout the year, the power industry strengthened its commitment to be a low-carbon economy and to be a solution provider in the post-2012 world.

In March 2009, Fortum signed a Declaration on Climate Change, Electricity Markets and Supply Security together with companies representing 70% of the EU's power production. The declaration acknowledges that the power sector needs to achieve a carbon-neutral power supply by the midpoint of the century. Efficient utilisation of electricity is considered important in the reduction of CO₂ emissions also in other sectors, such as transport.

Nordic and Baltic power markets

Power market integration between Nord Pool, Central Europe (EPEX) and the Baltic countries continued in 2009. The

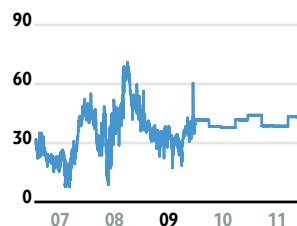
importance of power grid investments enabling market coupling was recognised in the EU stimulus package. In 2009, the EU Energy Programme for Recovery granted funds for new links connecting Finland and Estonia (Estlink 2), Sweden and Lithuania (NordBalt), Denmark and the Netherlands (Cobra Cable), and Denmark and Germany (Kriegers Flak).

The Nordic, Baltic and Polish transmission system operators (TSOs) concluded jointly in summer 2009 that more interconnections are needed both within the Baltic countries and between different regions in order to further improve the functioning of the Baltic Sea power market. Estonia aims at becoming

a new Nord Pool price area in 2010, but this still requires some regulatory changes by the Estonian parliament, such as abandoning regulated power prices for large industrial power customers. The Lithuanian TSO Lietuvos Energija and Nord Pool developed a technical solution for the Lithuanian power exchange, which started operations in January 2010. The exchange is based on the Nordic market model and enables future Nordic-Baltic market integration.

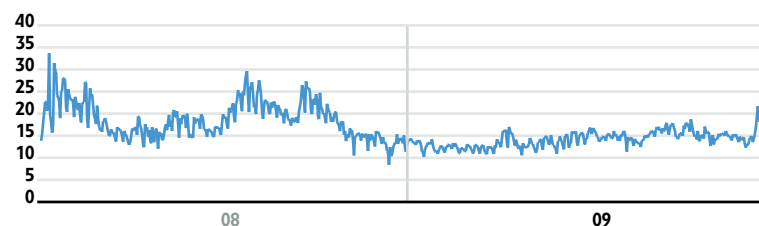
Increasing the utilisation rate of the existing network and raising trading liquidity are equally important factors behind the power market integration. Market coupling between Denmark

Nordic wholesale electricity price on Nord Pool, EUR/MWh



Source: Nord Pool, future prices as of 30 December 2009

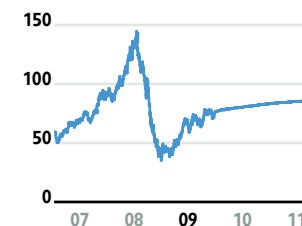
Electricity price ⁽¹⁾ in day-ahead market in European part of Russia, EUR/MWh



⁽¹⁾ Excl. capacity tariff

Source: ATS

Crude oil price (ICE Brent), USD/bbl



Source: ICE, Future prices as of 31 December 2009

(Nord Pool) and Germany (EEX Spot) was re-launched in November 2009, optimising the power flows between the two areas. In autumn 2009, the Nordic and central-western Europe TSOs agreed to develop market coupling based on a so-called price coupling principle within their area of nine countries.

Also the Nordic balancing power market developed during the year as the Nordic countries implemented common balancing principles, and the intra-day Elbas market was extended to also cover Norway in March 2009. Today, the Elbas market covers Finland, Sweden, Denmark, Norway and Germany.

In May 2009, the Nordic regulatory

authorities jointly proposed that the Nordic countries should form a harmonised retail market for electricity by 2015. This proposal was approved by the Nordic energy ministers in October 2009. Fortum fully agrees on the benefits of providing efficiency and more customer choice in a further developed and integrated Nordic retail market for electricity.

Svenska Kraftnät, the Swedish transmission system operator, proposed in November 2009 to divide Sweden into four separate bidding zones in the Nordic physical electricity market in order to manage congestion caused by limited transmission capacity in the country. In Fortum's view this proposal contradicts

the goal to create a common European wholesale market as well as an integrated Nordic retail market.

EU's internal market for electricity

The Lisbon Treaty was finally approved in November 2009. It introduces a specific article for energy policy. This means that the EU will have a legal basis for energy policy actions, which it has not had in the past. It emphasises the solidarity and interdependency of the EU member states in energy issues, i.e. it supports the aim of the internal energy market. Moreover, the new Commission starting in 2010 will have a dedicated directorate general for energy policy,

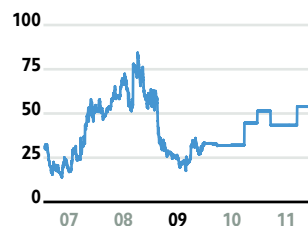
further strengthening the EU's role in future energy policy.

In 2009, the Commission allocated considerable appropriations for strategic energy projects through the EU economic recovery package. A total of EUR 3.5 billion is proposed for investments in CCS, off-shore wind projects as well as gas and electricity interconnection projects.

In 2009, there were not many new policy proposals in the union, as the European Parliament elections took place in the summer 2009 and the negotiations of the new Commission lasted most of the autumn. The new Commission was elected in December 2009. Some EU policies were still implemented in 2009. The internal market package by the European Union was approved formally in June 2009. Implementation of the internal market legislation started by establishing the new association for TSOs for electricity (ENTSO-E) and regulators (ACER), which will have a central role in putting the EU package into effect. ENTSO-E started its full operation in July 2009 and replaces the earlier associations of its 42 members representing 34 countries. The internal market package also requires unbundling of transmission and production. Consequently, Fortum and Pohjolan Voima are obliged to withdraw from the Finnish TSO, Fingrid, by early 2012.

A directive on nuclear safety was approved in 2009. It sets the minimum requirements with regard to nuclear

Gas price (ICE NBP), GBP/therm



Source: ICE

Coal price (ICE Rotterdam), USD/t



Source: ICE

CO₂ allowance price (NP EUA), EUR/tCO₂



Source: Nord Pool, Future prices as of 30 December 2009

safety that all the member states must put in place. The Commission is planning to propose a directive concerning nuclear waste management in the course of 2010. This is a breakthrough for EU legislation in the nuclear area, where the EU countries have not previously been able to agree on the need for common legislation. This is one example of market integration implications, as common rules are necessary.

Russian power market

The liberalisation of the Russian electricity market has progressed as planned in spite of the deep economic recession. The share of wholesale power sold

at competitive prices has been gradually replacing the tariff-based share since 2007. In the first half of 2009, 30% of the power was sold at competitive prices. This share increased to 50% in July 2009 and further to 60% at the beginning of 2010. As for the regulated part, the electricity tariffs were allowed to grow at rates corresponding to the growth in fuel prices and the inflation. The wholesale power market is planned to be fully liberalised by 2011. Sales to households (and consumers equated to households) will, however, remain regulated even after 2011 with a gradual increase in tariffs to the market-based level.

The rules of the long-term capacity

market, taking place from 2011 onwards, are under preparation and their approval by the Government of the Russian Federation is expected to take place in the beginning of 2010. Meanwhile, the present rules of the transitional capacity market will remain in force until 2011. The capacity market is established to provide long-term system security, increase energy efficiency and form predictable conditions in the power market.

The Russian future power exchange, ARENA, plans to launch trading of financial power derivatives in the first half of 2010. The ancillary services market is also expected to be launched in 2010.

Such services as primary and secondary frequency regulation, reactive power regulation and emergency power grid control will be sold through separate auctions managed by the system operator.

The government made a decision to revise the long-term power plan, the General Scheme, initially adopted in 2007. The document sets targets for power sector development until 2020 with a view to ensure reliable and efficient supply of electricity and heat. The revision was needed due to the notable discrepancy between actual demand development and the original targets. The updated General Scheme is expected to be ready in 2010.

Power generation by source in the Nordic area

TWh	2009	2008	2007	2006
Hydro	203	225	215	192
Nuclear	72	83	87	87
Other thermal	80	77	85	97
Wind	11	10	10	8
Total	366	395	397	384
Net import ¹⁾	8	-1	3	11

¹⁾ import-export

Source: ENTSO-E, National statistics, preliminary information for 2009

Power generation by source in Russia

TWh	2009	2008	2007	2006
Hydro	176	166	179	173
Nuclear	164	164	160	156
Other thermal	652	706	676	665
Total	992	1,036	1,015	994

Source: 2006–2007 IEA, 2008–2009 from preliminary Russian statistics

The heat distribution business in Russia is regulated and tariffs are set on an annual basis using the cost method. Tariff system change is under preparation and a move to the Regulatory Asset Base (RAB) system in 2012 is being discussed. The increased energy efficiency requirements have increased pressures to change the current regulatory framework to include incentives for efficiency improvements. Also cross-subsidies between customer groups are planned to be phased out in the coming years.

Utilities focus on performance

Power utilities were in high growth-mode when the financial crisis hit. However,

the global recession and consequent dip in demand forced them to postpone and cancel investments. The recession put pressure on companies to focus on performance and profitability. European players have announced various efficiency measures and programmes to tackle the issue. Many companies have planned to streamline their operations and to divest some of their non-core assets. Some companies also gathered new equity from the market to strengthen their balance sheets.

There will be a huge need for investments in generation across Europe. In the coming decades, a significant amount of power generation capacity will retire.

Electricity demand is also expected to grow after the recession, even if more moderately than earlier anticipated.

Primarily organic growth is still on the agenda of most power utilities as markets are integrating and growing in Europe. While major acquisitions may not take place during the near future as most players are reluctant to make major debt-financed acquisitions, consolidation is expected to continue in the long term.

The strengthening political focus on climate change and low-carbon-intensive generation is gaining momentum towards organic growth. As the EU member states seek to fulfil their renewable targets, a lot of new renewable electricity produc-

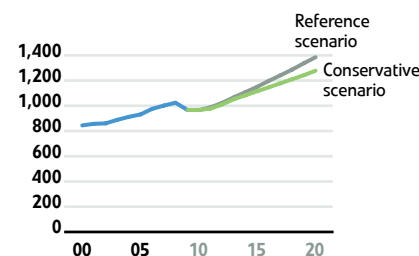
tion needs to be built. Many states are also reconsidering their position towards nuclear power. The IEA confirmed in its annual World Energy Outlook 2009 that nuclear capacity needs to double globally until 2050 to fulfil the 80% CO₂ reduction target. Consequently, a number of European countries are now planning to build new nuclear power. These countries include Finland, France, Lithuania, Slovakia, Italy, UK, Bulgaria, Romania, Hungary, Poland, and the Czech Republic. Also the US, China and South Africa, among others, have similar plans. Sweden and Germany have reversed their earlier plans to totally phase out nuclear power.

Electricity consumption in the Nordic countries and Russia

TWh	2009	2008
NORDIC	374	395
Finland	81	87
Sweden	136	144
Norway	122	128
Denmark	35	36
RUSSIA	959	1,019

Source: ENTSO-E, National statistics, preliminary information for 2009

Electricity demand in Russia, TWh



Source: APBE (forecasting agency in charge of updating General Scheme)

COMPARED TO A PETROL-FUELLED CAR, THE LIFE-CYCLE CO₂ EMISSIONS OF AN ELECTRIC CAR CAN BE **90%** LOWER

The transport sector creates about 14% of global greenhouse gas emissions. Thanks to the much higher energy efficiency of the electric motor, an electric vehicle reduces primary energy demand by 75% in comparison to an average combustion engine vehicle. If a third of all cars globally were hybrids or full electric vehicles by 2030, 1–3.5 gigatonnes of CO₂ emissions could be avoided.



CHAPTER 3 INVESTING IN THE FUTURE

Energy companies shoulder great responsibility. They must secure adequate power and heat generation capacity, reliable transmission and high-quality services for industrial clients and households alike. At the same time, they play a key role in mitigating climate change, as the majority of greenhouse gases are generated in the production and consumption of energy. Decisions made today affect generations to come, as the average lifetime of a power plant is 40–60 years.

In 2030, the fundamentals of the energy system have not changed dramatically, although new innovations aiming at increasing energy efficiency and reducing the climate impacts of power production have been taken in use.

For Fortum's investments, the starting point is always an economically viable balance between increasing demand and emissions reduction targets. Fortum wants to develop and apply new technologies to support the development towards a carbon dioxide-free energy system. All means are needed – it is not just a matter of technology. The most effective way to reduce environmental impacts is to use energy efficiently.

European energy system 2030 →



Nuclear CHP

Nuclear power is widely used for both electricity and heat production. Modern nuclear power plants produce CO₂-free base load energy for the industry in Europe. Nuclear CHP is used to replace fossil fuels in heat production.



CCS

Fossil fuels continue to be a significant energy source for decades to come. Their climate impact can be reduced by capturing the carbon dioxide. If the carbon dioxide is captured also in biofuel power plants, carbon sinks are created.



Hydropower

Hydropower is widely used, particularly in the Nordic countries. Electricity produced with hydropower is totally carbon dioxide-free and has an important role in balancing wind power production.



Bio CHP

Biomass is used a lot in the Nordic forested areas where the fuel is cost-efficiently available. Biomass is a carbon-neutral way to produce electricity, heat and traffic fuel.



Solar, wind and wave power

Windpower is widely used to produce energy on the western coast of Europe, while solar energy is utilised more and more in the south. Energy is also produced with wave power in coastal areas.



Smart grid

Distributed energy production is commonplace. Smart grids enable electricity from small-scale local production to be fed into the grid.



Electric car

A European standard for charging electric vehicles has been adopted. With infrastructure in place and transportation taxed on the basis of emissions, the number of electric vehicles will have grown strongly. Electric car batteries will also be used as energy stores.



Common European electricity market

With improved transmission connections and common European market, electricity consumers can choose their energy supplier.

Investments

Fortum streamlined its investment programme during the financial crisis to be between EUR 0.8-1.2 billion annually. With a strong balance sheet and flexibility in its annual investment programme, Fortum is well positioned for the ongoing market recovery.

The global financial crisis dampened the overall economic growth throughout 2009, also affecting the demand for electricity. Fortum focused strongly on maintaining its financial flexibility and put considerable efforts into streamlining its cost structure and capital expenditures. Consequently, Fortum is in a strong position as economies have started to recover from the deep recession.

Based on Fortum's current investment plan, the bulk of the company's growth investments will be in the Heat and the Russia Divisions. In the Distribution business area, Fortum will be investing in automatic meter management in Finland, having completed the Swedish automatic meter management project during 2009.

Profitability of investments the first priority

In 2009, Fortum's capital expenditures and investments in shares totalled EUR 929 (2008: 2,624) million. Investments, excluding acquisitions, were EUR 862 (1,108) million.

Maintenance and productivity investments amount to approximately EUR 400–500 million annually. Growth investments in new Russian power generation capacity will be unevenly spread over the years 2010–2015, and are estimated to total approximately EUR 1.8 billion. On average, this is EUR 300 million annually. The rest of the annual capital expenditure will be spent in Nordic and Baltic

Rim growth, mainly in constructing new combined heat and power (CHP) capacity.

Investments in Heat proceed

In 2009, two new CHP plants were commissioned:

- Tartu, Estonia (March, biomass/peat, 25 MW electricity, 50 MW heat)
- Suomenoja, Finland (December, gas, 240 MW electricity, 220 MW heat)

In 2010, Fortum expects to take two new CHP plants into commercial use:

- Częstochowa, Poland (Q3, 2010, biofuel and coal, 65 MW electricity, 120 MW heat)
- Pärnu, Estonia (end of 2010, biofuel

and peat, 20 MW electricity, 45 MW heat)

In addition, the Heat Division plans to significantly reduce the CO₂ emissions of its power and heat production over the next decade. In Stockholm, Sweden, this includes increasing the share of renewable energy in the Värtan CHP plant's existing units from the current 45% to 70% by 2015. Värtan is the largest production facility in the city with a capacity of 389 MW electricity, 1,700 MW heat and 125 MW district cooling. Furthermore, Heat is investigating the possibility to invest in several new production units. These include a

EUR 929 million

In 2009, Fortum's capital expenditures and investments in shares totalled EUR 929 million.

Fortum's European investment plan as of 2009

Plant	Fuel type	Planned generation capacity (MW)		Commissioning
		Heat	Electricity	
Tartu, Estonia	Biomass/peat	50	25	2009
Suomenoja, Finland	Gas	220	240	2009
Oskarshamn 3, Sweden	Nuclear		110 ⁽¹⁾	2009
Częstochowa, Poland	Biofuel/coal	120	65	2010
Pärnu, Estonia	Biofuel/peat	45	20	2010
Forsmark 1 and 2, Sweden	Nuclear		50 ⁽¹⁾	2009–2011
Oskarshamn 2, Sweden	Nuclear		100 ⁽¹⁾	2011
Olkiluoto 3, Finland	Nuclear		400 ⁽¹⁾	2012
Forsmark 3, Sweden ⁽²⁾	Nuclear		30 ⁽¹⁾	2013
Brista, Sweden ⁽²⁾	Waste	20	60	2013
Klaipėda, Lithuania	Biofuel/waste	50	20	2013
Nordic hydro refurbishment	Hydro		100–150	> 2015

⁽¹⁾ Fortum's share

⁽²⁾ To be decided

new waste-fired unit in Brista CHP that could be commissioned in 2013. The planned capacity of the new unit is 20 MW electricity and 60 MW heat. Preliminary plans also include a new biofuel-fired unit in Värtan CHP that could be commissioned in 2016.

Russian power generation investments proceed

In 2008, Fortum took a major strategic step by acquiring the Russian Territorial Generating Company 10 (TGC-10) that operates in the oil- and gas-producing Urals and Western Siberia regions. The company was renamed OAO Fortum in 2009. At year-end 2009, Fortum's owner-

ship in OAO Fortum was approximately 95%.

Fortum has committed to fulfil OAO Fortum's 2,300-megawatt investment programme by 2015. Once completed, the programme will have increased OAO Fortum's power generation capacity by approximately 80% from the current 2,800 MW to 5,050 MW.

The investment programme covers seven units. Fortum is planning to reschedule three of seven units by 1–3 years. In total, the rescheduled units correspond to a bit more than half of the planned 2,300-MW capacity increase.

The total estimated value of the investment programme at year-end 2009

for the years 2010 to 2015 is EUR 1.8 billion.

During 2010, three units are expected to be commissioned in Russia:

- Tyumen 1, capacity 190 MW electricity (Q3 2010, gas)
- Tobolsk, capacity 210 MW electricity (Q3 2010, gas)
- Chelyabinsk 3, capacity 220 MW electricity (Q4 2010, gas)

The execution of the investment programme progressed well during 2009. Besides the three units that are expected to be taken into commercial use in 2010, the construction of the new Nyaganskaya

power plant in the northern Urals area continued. Once completed, the power plant will have three 400-MW natural gas-fired power generation units. At Tyumen CHP-2, planning of the construction of the 5th unit continued. Once completed, the natural gas-fired unit will have a power generation capacity of 450 MW.

Strong nuclear agenda

In the Power Division, Fortum's nuclear associated companies will build new nuclear capacity in Finland and in Sweden nuclear capacity will be increased through the upgrading of existing reactors in Forsmark and Oskarshamn. The related capital expenditure will show

Extensive investment programme in Russia

Plant	Fuel type	Power generation capacity (MW)		
		Existing	Planned	Total
Tyumen CHP-1	Gas	472	190	662
Tobolsk CHP	Gas	452	210	662
Chelyabinsk CHP-3	Gas	360	220	580
Tyumen CHP-2	Gas	755	450	1,205
Nyagan GRES	Gas		3x400	1,200
Argayash CHP	Coal, gas	195		195
Chelyabinsk CHP-1	Coal, gas	149		149
Chelyabinsk CHP-2	Coal, gas	320		320
Chelyabinsk GRES	Gas	82		82
OAO Fortum		2,785	2,270	5,055



primarily in Fortum's nuclear associated companies, which are not consolidated to Fortum's accounts.

Progress in Olkiluoto 3

Fortum is participating in the building of the fifth nuclear power plant unit (Olkiluoto 3, 1,600 MW) in Finland. Fortum holds an approximately 25% share in Teollisuuden Voima (TVO), which is constructing the plant. The AREVA-Siemens Consortium, the turn-key supplier of the Olkiluoto 3 nuclear power plant unit to TVO, has announced that the start-up of the plant will be postponed until 2012. TVO has stated that it believes the project may be further

delayed from 2012.

TVO's investment is mainly funded with external loans (approximately 75% of the total investment), share issues and shareholder loans from the owners of TVO. In 2009, TVO's Annual General Meeting decided to raise the company's share capital by EUR 100 million, of which Fortum's share was EUR 25 million. The equity increase was part of Fortum's total equity commitment of EUR 180 million to the Olkiluoto 3 project. The increase in Fortum's participation in TVO was paid in 2009. Furthermore, TVO's shareholders signed a EUR 300 million subordinated shareholder's loan commitment to TVO in 2009. The

facility will be available until the end of 2013. Fortum's share of this commitment is at maximum EUR 75 million.

Growth through new nuclear in Finland

In February 2009, Fortum submitted an application to the Finnish Government for a decision-in-principle concerning the construction of a new nuclear power plant unit in Loviisa. The new unit will be built so that it allows for combined heat and power production (CHP-ready). According to plan, the new unit could be operational in early 2020 and its designed service life is at least 60 years. The application presents five different plant alternatives, all of which will fulfil

the stringent Finnish safety standards once completed. Fortum is one of three applicants applying for the decision-in-principle in Finland.

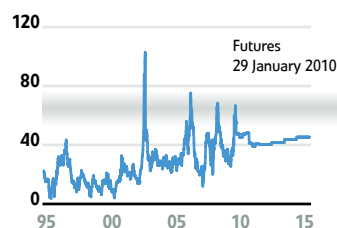
Fortum is also a minority shareholder in TVO, which submitted its decision-in-principle application in 2008 for a fourth nuclear power plant unit to be built in Olkiluoto.

The Government is expected to make its proposal to the Parliament regarding which of the three applicants will receive a positive decision-in-principle during 2010, and the Parliament is expected to vote on the Government's proposal towards the end of 2010.

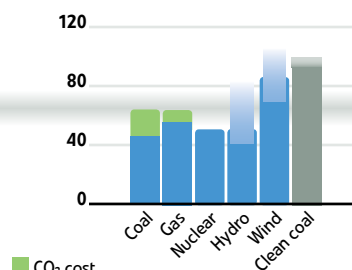
New capacity, except nuclear, will require over 60 EUR/MWh power price

EUR/MWh

EUR/MWh



Source: Nord Pool

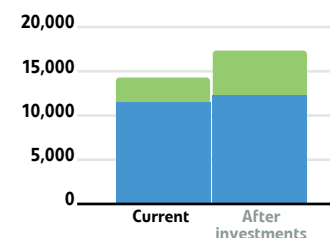


Estimated lifetime average cost in nominal 2014 terms

Large variations in cost of new hydro and wind due to location and conditions

Power generation capacity before and after investment programme, MW

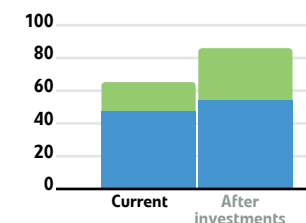
Power generation capacity before and after investment programme, MW



Legend: OAO Fortum in Europe

Power generation before and after investment programme, TWh

Power generation before and after investment programme, TWh



Legend: OAO Fortum in Europe

Swedish reactors to be upgraded

The nuclear capacity increases at the Forsmark and Oskarshamn power plants in Sweden are planned to be carried out in the near future. Fortum owns approximately 23% of Forsmark's Kraftgrupp AB and approximately 43% of OKG AB (Oskarshamn). As a minority owner, Fortum is participating in these upgrades. Fortum's share of the planned capacity additions is estimated at 290 MW. Some of these projects still require licenses. Fortum's Swedish nuclear associates are mainly funded with shareholder loans, pro rata to each shareholder's ownership.

The upgrading of Oskarshamn 3 took place in 2009 and the 1,152-MW reactor was off-line from the beginning of March to mid-December. The capacity effect at the reactor was upgraded from 1,152 MW to about 1,400 MW. Fortum's share of the increase was approximately 110 MW.

The Swedish nuclear upgrade programme is planned to progress as follows:

- In 2010, the full effect from the capacity increase in Oskarshamn 3 taken into use in late 2009 (Fortum's share 110 MW, approximately 0.8 TWh per annum)
- 2009–2011, upgrades at Forsmark 1 and Forsmark 2 (Fortum's share 50 MW, approximately 0.4 TWh per annum)
- 2012, upgrade at Oskarshamn 2 (Fortum's share 100 MW, approximately 0.7 TWh)
- After 2013, upgrade at Forsmark 3

In Sweden, the government has announced a new climate and energy agreement, which enables discussions on new nuclear power reactors to be built to replace old reactors at current sites.

Investments in renewable power generation

The Power Division's investment programme includes refurbishment investments in several hydropower plants to increase capacity, improve safety and maintain good plant availability. These are included in the maintenance/productivity capital expenditure at the group level. On average, the hydro refurbishment programme will increase Fortum's generation capacity by 20–30 MW annually by 2015.

Fortum is investigating several wind power projects in the Nordic countries. Studies include both on- and off-shore wind farm developments in the region.

In Finland, Fortum and Metsähallitus, the national forest agency, have started a joint feasibility project of a wind power park in the Kuolavaara-Keulakkopää area, located in the Kittilä and Sodankylä municipalities in Northern Finland. According to initial estimates, approximately 18 wind power stations of 2–3 MW each can be built in the area, producing between 100 and 120 gigawatt-hours (GWh) of renewable energy annually.

Furthermore, Fortum started negotiations on assessing the environmental impact of building five wind power

stations on the island of Bergö in the municipality of Maalahti in Finland. The total capacity of the wind power stations would be 15–20 MW.

In February 2010, the Swedish energy agency granted Fortum and wave-power supplier Seabased Industry EUR 14 million in investment support to develop and build a full-scale wavepower plant on the west coast of Sweden. Once completed, the power site would be the world's largest of its kind with a power generation capacity of 10 MW, representing an estimated total investment of close to EUR 25 million. A formal investment decision has not yet been made.

Trends

Mitigating climate change requires a fundamental shift in how we build our cities and live in them. Tomorrow's modern "eco-cities" are based upon intelligent solutions for the electricity grid, eco-efficient construction, climate-benign transport and sustainable heating solutions.

60%

The global proportion of urban population is likely to rise to 60% by 2030.

The rapid urbanisation of the world's population through the twentieth century and beyond is described in the 2005 Revision of the UN World Urbanization Prospects report. The global proportion of urban population rose dramatically from 13% (220 million) in 1900, to 29% (732 million) in 1950, to 49% (3.2 billion) in 2005. In 2008, the world population became primarily urban for the first time, and according to the United Nations, the share of urban population will continue to increase on all continents. The global proportion of urban population is likely to rise to 60% (4.9 billion) by 2030. Urbanisation has caused sustainability issues in cities, issues such as air and water pollution, traffic congestion as well as housing and social problems.

Eco-cities create the smallest possible ecological footprint

A sustainable city, or eco-city, is a city designed with consideration of environmental impact, inhabited by people dedicated to the minimisation of required inputs of energy, water and food, and waste outputs of heat and pollution.

A sustainable city can power itself with renewable sources of energy. The point is to create the smallest possible ecological footprint, produce the lowest possible amount of pollution, use land efficiently, compost or recycle waste, or convert waste into energy, thereby reducing the city's overall contribution to climate change.

Fortum has actively taken part in the development of sustainable cities. One large-scale example of a sustainable built environment is Hammarby Sjöstad in Stockholm, Sweden. The area has been developed by Fortum together with Stockholm Water Company and Stockholm Waste Management to demonstrate a common eco-cycle model. The district has imposed strict environmental requirements on buildings, technical installations and the traffic environment, from day one.

Smart grid and smart technologies enable sustainable cities

Fortum's ambition is to take further steps as a partner to create sustainable cities. One key element in building tomorrow's sustainable cities is a smart grid, which delivers electricity from suppliers to consumers using two-way digital technology to control electrical devices at consumers' homes. The key drivers behind the development towards smarter electricity networks are the need to integrate significantly more renewable energy production into the system and the need to achieve higher energy efficiency. The rapid development of energy technology and ICT development enable new, more intelligent solutions for the grid.

In building the future smart grid, Fortum has especially focused on electricity network development, distributed energy systems (i.e. more small-scale local

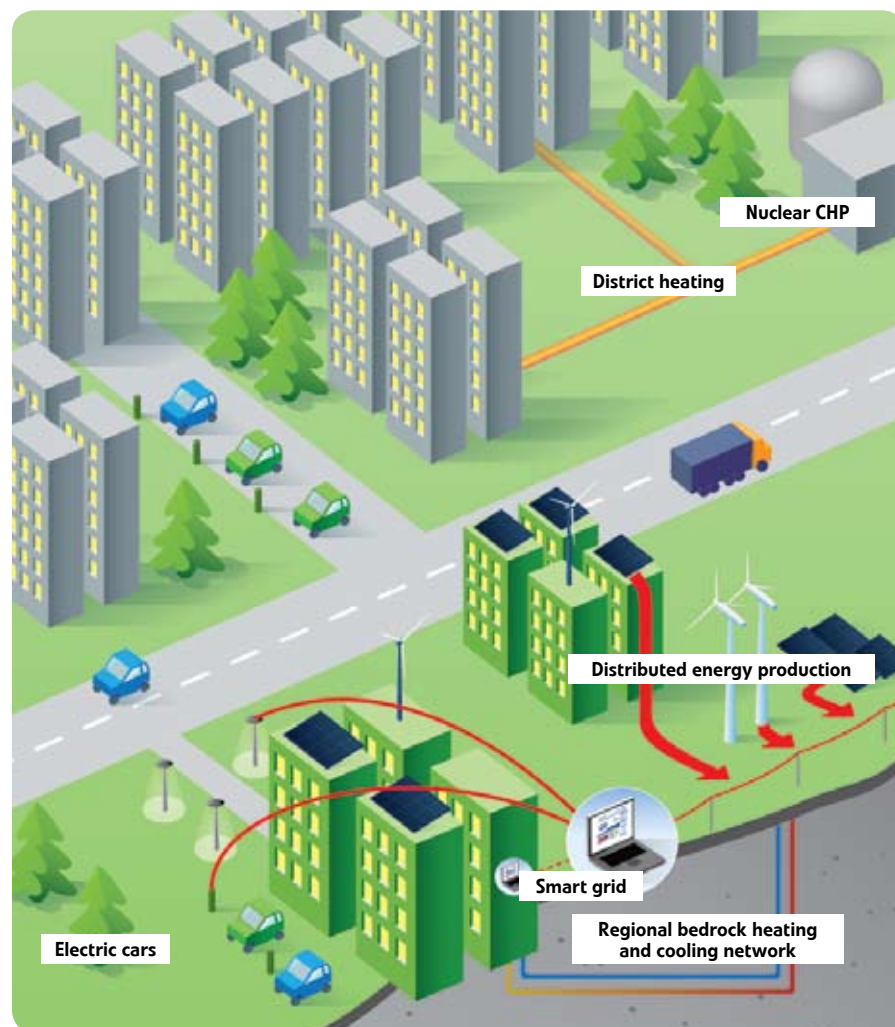
production), and smart home solutions. An example of Fortum's pioneering work is the flexible, efficient power network that it is developing in the new Stockholm Royal Seaport area in collaboration with ABB.

➔ Read more on page 39.

Smart homes control energy usage

Future smart home solutions will include extremely energy-efficient buildings with measurements and control for optimum energy use. Energy efficiency management in smart homes starts with smart metering, which puts the power in the consumers' hands by enabling them to control how much energy is being used. Automatic meter management (AMM) provides consumers with a wealth of information about their household's electricity consumption. Smart meters enable solutions and services helping consumers to see how much power is being used and when it is used. Fortum has already installed 844,000 smart meters in Sweden and the installations will begin in 2010 in Finland.

Future sustainable cities will enable completely new business models associated with local, small-scale electricity production, e.g. small wind power plants or solar power on rooftops. Sometimes the consumer might produce more electricity than needed and may want to sell the electricity back to the utility. Thus the consumer will also increasingly become a producer of electricity.



An example of how a sustainable city could work compared to today's system of centralised power production and a one-way flow of power.

Cleaner traffic for urban dwellers

An important aspect in developing smart home solutions is also the increased use of electricity to replace fossil fuel use in transportation. In addition to improving energy efficiency, Fortum believes that electric vehicles provide a good opportunity to reduce emissions, since recharging a car with electricity that has been produced from CO₂-free energy sources also lowers the car's life-time CO₂ emissions to close to zero. In the future, the batteries of electric vehicles will often be charged at home – either through the grid or through local, on-site power production.

Eco-efficient heating solutions reduce emissions

Fortum has actively developed combined heat and power (CHP) production, which means that the power plant simultaneously generates both electricity and heat. The efficiency of CHP makes it promising from a community-level energy efficiency point of view, since nearly 90% of the energy contained in the fuel is utilised.

Another example of eco-efficient heating is waste combustion to produce both electricity and district heating or cooling. Using the energy content of waste can reduce greenhouse gas emissions, as the energy produced by combusting waste can replace the energy produced by using other fuels. Fortum's CHP plant Högdalen in Stockholm,

Sweden, has generated energy from waste since 1970; the plant has constantly been developed to make it one of the most modern waste-to-energy power plants in Europe.

Heat can also be extracted from the bedrock, making it possible to heat homes economically and in a climate-benign way. Fortum, YIT and Uponor have developed a bedrock heat solution for an entire residential area, and it will be implemented for the first time in the Nupurinkartano residential area in Espoo, Finland. The area will eventually be home to some 500–600 residents. The homes and the household water will be heated energy efficiently and without any CO₂ emissions.

Research & development activities

Fortum believes that the future energy system should be based on electricity produced without CO₂ emissions and enable high overall energy efficiency. This is also stated in Fortum's research and development (R&D) vision, which aims at enabling a CO₂-free and sustainable future.

Expertise in energy technology is essential in the development of efficient, reliable and emissions-free energy production and new sustainable energy solutions. The transition to a largely CO₂-free energy system will have to take place in a relatively short time in order to achieve the required mitigation of climate change. Fortum's R&D activities fall within four focus areas that all lead to the company's vision of enabling a CO₂-free and sustainable future: performance excellence in current operations, enabling growth, mitigating climate change and contributing to the development of the long-term non-emitting energy system. The R&D approach is based on building

networks and partnerships with leading research organisations, engineering companies, and plant and equipment suppliers.

In 2009, Fortum's R&D activities focused strongly on the development of a nuclear combined heat and power (CHP) plant concept, smart grids and recharging infrastructure of electric vehicles.

Nuclear concepts for district heating

Nuclear R&D has always been a strong area in Fortum's R&D portfolio. In 2009, when the application for a decision-in-principle for Loviisa 3 was submitted, active development work was carried out

on concepts to utilise the heat from a nuclear power plant for district heating purposes.

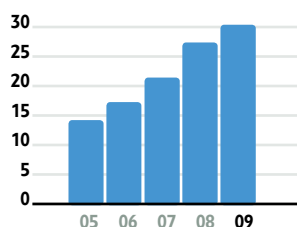
Replacing coal- and natural gas-fired CHP production in the Helsinki metropolitan area with district heat produced at the Loviisa 3 nuclear power plant unit could reduce Finland's CO₂ emissions by 4 million tonnes per year. In the Helsinki area, the CO₂ emissions could be reduced by 60%. The solution would also entail a very significant overall nuclear plant efficiency improvement from approximately 40% to 55–70%, depending on plant size.

All steam generated in nuclear power plants is normally used for power generation, but in the CHP generation model, part of the steam would be utilised as process heat for industries or for district heating.

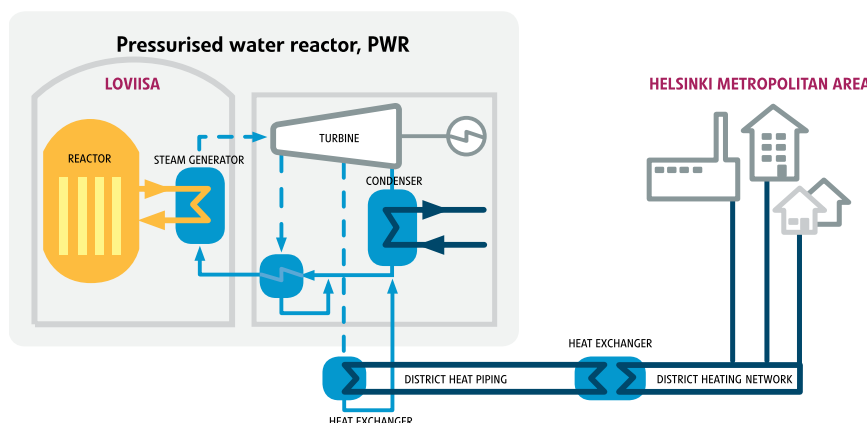
Fortum is working with turbine manufacturers to develop concepts for steam extraction in order to achieve an optimal balance between electricity generation and heat utilisation. One of the biggest technical challenges is the construction of the heat transport system. In preliminary plans, the pipes would be placed in a large rock tunnel, which would ensure stable conditions and enable maintenance work.

Fortum has modelled and simulated the heat transport system with the Apros simulation software, which has been developed in long-term collaboration between Fortum and the Technical

R&D expenditure, EUR million



Nuclear combined heat and power concept



Research Center of Finland. The results provide input for the design of safety systems and for the calculations of the structural integrity of the heat transport system. Later on, the heat transport simulation model will be integrated with the nuclear plant model for extensive nuclear safety analyses. This way it can be ensured that nuclear safety is unaffected in a nuclear CHP application.

Smart grid development

Smart grids became an important new priority in Fortum's R&D in 2009. A smart grid is an electricity network that can intelligently integrate the actions of all users connected to it – electricity generators and consumers – in order to efficiently deliver sustainable, economic and secure electricity.

Fortum started several concrete development projects in the realm of smart grids during the year. A joint development project to design and install Europe's first large-scale urban smart electricity grid in a new district in the city of Stockholm was initiated in cooperation with ABB. The R&D project will test the concept of a flexible, low-emission power network in the new Stockholm Royal Seaport Area. Fortum and ABB will develop a variety of solutions to ensure that the district's excess power, generated from renewable energy sources, such as rooftop solar panels, can be fed into the power grid. Also electric vehicles can draw or feed electricity from or to the grid. The system

enables the storage of energy, which in turn provides more flexibility in the distribution grid, thereby helping to lower consumption and emissions.

Smart Grids and Energy Markets (SGEM) was the very first 5-year-long programme started by Cleen Oy, the Strategic Centre for Technology and Innovation for energy and the environment, in 2009 in Finland. Fortum contributed actively to the preparation of the programme in 2009 and participates in several of the SGEM programme's Work Packages. Demonstrations of solutions in real environments are an essential part of the programme. One example is the impact of customer behaviour trends on future network development. Another important aspect is to understand the migration phases from the current state of the network towards the vision of the future smart grid. Fortum links are working on several master's theses and a doctoral thesis for the SGEM programme.

Electric vehicles for cleaner driving

Electric cars are an essential part of the picture when talking about future transport. When recharged with electricity from CO₂-free sources, driving with an electric vehicle is completely emissions-free. Fortum supports the introduction of plug-in electric vehicles by developing the infrastructure and creating demand for electric cars.

In 2009, Fortum continued actively with development initiatives related to electricity in transportation. Partners in Finland and Sweden include the cities of Espoo, Stockholm and Karlstad. In addition, Fortum started cooperation with Valmet Automotive, part of Metso Group in Finland, to develop a new, fully-electric concept car to be introduced at the Geneva Motor Show in March 2010. In 2009, Fortum also cooperated with Mitsubishi in the marketing of iMiEV, the first battery-powered electric vehicle designed for the mass market. In addition, Fortum participated in the grassroots level pioneering work by supporting the Finnish Electric Cars

– Now! project. In Sweden, Fortum initiated cooperation to test the recharging infrastructure with Preem oil retail service stations.

R&D expenditure

The Group's total R&D expenditure in 2009 was EUR 30 million (2008: EUR 27 million). The increase in expenditure is mainly attributable to the increased activity around carbon capture and storage and electricity in transportation. Fortum's R&D expenditure in 2009 was 0.5% of net sales (2008: 0.5%) and 0.9% of total group expenses (2008: 0.8%).

➤ Read more on www.fortum.com/research

CCS

Fortum and TVO, in partnership with Siemens and Maersk, are jointly developing a carbon capture and storage (CCS) solution to their Meri-Pori power plant by 2015. The FINNCAP project aims to become part of the European CCS demonstration programme by capturing and storing more than 1.2 Mt CO₂ annually. The project would reduce Finnish national CO₂ emissions by some 1.5%. Also sulphur dioxide and particulate emissions would be reduced significantly. The project would have a considerable impact on the local and national economy and could facilitate the creation of a new technology cluster in Finland.





A winter view of Håstholmen, Finland, where the Loviisa nuclear power plant is situated. As a carbon dioxide-free form of energy production, nuclear power plays an important role in curbing climate change. In a life-cycle comparison, the carbon dioxide emissions of nuclear power are just as low as those of wind, hydro and solar power.

FORTUM HAS REDUCED SPECIFIC CO₂ EMISSIONS OF ITS ENERGY PRODUCTION IN EUROPE BY 50%* BETWEEN 1990–2009

*The figure is calculated by dividing the total CO₂ emissions of Fortum's pro forma energy production in 1990 and 2009 with the corresponding year's aggregated electricity and heat production.

CHAPTER 4 SUSTAINABILITY

Sustainability is an integral part of Fortum's strategy and vision expressing our firm belief that sustainability is a success factor for the business. High ethics, one of Fortum's shared values, also carries a strong reference to our commitment to sustainability.

Our Sustainability Policy and the related operating principles, which can be found on Fortum's website, outline the focus areas and the means by which Fortum promotes sustainability. The

policy is implemented through the Sustainability Agenda, which specifies the entire Group's shared long- and medium-term goals guiding the annual goal setting and operational planning of the divisions. The results are reported on Fortum's website (www.fortum.com/sustainability) and in the Annual Report.

Fortum's core purpose "Our energy improves life for present and future generations" is the basis for the company's desired position: We want to be an

enabler of a low-carbon society, be known as the responsible energy company and provide sustainable energy for our customers.

Fortum's Code of Conduct establishes the foundation for the company's business conduct everywhere. All Fortum employees are expected to conduct themselves and their business in compliance with the code – without exception. The Code of Conduct is based on Fortum's values and contains principles pertaining

to e.g. employee rights, ethical conduct with customers and business partners, social and environmental responsibility as well as safety.

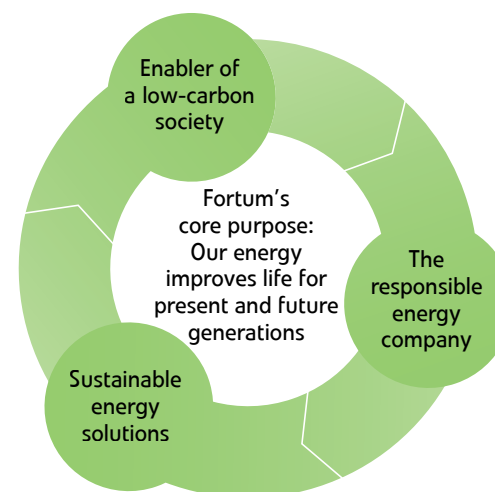
Fortum's Internal Audit function ensures that the company complies with the laws and regulations regarding its operations and with the company's own operating principles and risk management policies.

Fortum's sustainability goals for 2020

- ▶ Market leader in low-carbon products and energy-efficiency solutions
- ▶ Successful deployment of climate-benign R&D
- ▶ Among the lowest-emitting energy companies
- ▶ Minimal environmental impacts from own activities
- ▶ Benchmark company for equal opportunities
- ▶ Best safety performance in the sector
- ▶ Respected corporate citizen

Performance indicators

Desired position



Environmental responsibility

Fortum is aiming to remain among the lowest greenhouse gas emitting companies in the sector, and climate change mitigation lies at the core of Fortum's strategy.

99%

At the end of 2009, approximately 99% of Fortum's business operations in the EU were environmentally certified.

As the majority of the world's greenhouse gas emissions come from the production and consumption of energy, the energy industry has the responsibility of assuming an active role in the mitigation efforts. For Fortum, climate change is a fundamental business driver and represents both risks and opportunities.

Ambitious emissions targets

Fortum's ultimate goal is to be a carbon dioxide-free power and heat company. To achieve this, the company has set targets on the CO₂ emissions from its electricity and heat production. With these targets, Fortum strives to constantly keep its

CO₂ emissions among the lowest in the energy sector. In 2009, 69% of Fortum's power generation was CO₂-free. Within the EU countries, the share of CO₂-free power production was 91%.

Fortum's specific CO₂ emissions in 2009:

- Five-year average from power generation in the EU area: 58 g/kWh
- Heat production's emissions reduced by 4.1% from the 2006 level

Fortum's other environmental performance in 2009:

- 87% of all operations environmentally certified, in the EU 99%
- A 9% reduction in CO₂ emissions from

company-related air travel in 2009 compared to the 2007 level

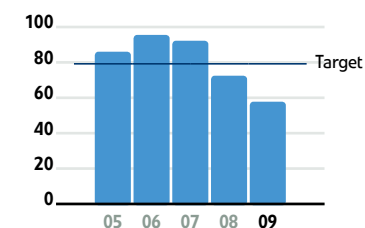
CO₂ emissions of Fortum's energy production in 2009:

- Total of 22.0 million tonnes (2008: 17.6)
- Outside the EU, a total of 13.8 million tonnes (2008: 9.8)
- Total emissions subject to EU emissions trading scheme (ETS): 7.7 million tonnes (2008: 7.2; 2005-2007: about 8.7 per year)
- Specific emissions from electricity production (including Russia), 176 g/kWh (2008: 134)

Key figures, whole Fortum

	2009	2008
CO ₂ emissions, 1,000 t	21,796	17,600
SO ₂ emissions, 1,000 t	14.3	16.8
NO _x emissions, 1,000 t	30.8	29.5
CO ₂ emissions of power generation, g/kWh (own plants and partly-owned plants)	176	134
Share of renewable energy sources in power generation, %	36	38
Share of CO ₂ -free energy sources in power generation, %	69	75
Share of renewable energy sources in heat production, %	17	19

CO₂ emissions from power generation in the EU, 5-year average, g/kWh



Separate targets have been set for carbon dioxide emissions from production in the EU and outside the EU.

➤ Read more on www.fortum.com/sustainability.

Carbon dioxide-free energy production

Fortum's most important means of mitigating climate change is to increase CO₂-free energy production. Renewable energy sources are an integral part of future energy solutions, and their use creates new business opportunities for Fortum. Nuclear power is a significant part of Fortum's carbon dioxide-free energy production portfolio. The company also continuously develops its

hydropower production and strives to increase the use of biomass and waste-derived fuels as well as wind power. Additionally, Fortum invests in the development of future renewable energy production technologies, like wave power.

➤ Read more on pages 32–35.

In 2009, renewable energy sources accounted for 48% (2008: 46) of Fortum's electricity generation and 36% (2008: 32) of the heat generation in the EU countries. The total use of biomass was 8.0 terawatt-hours (TWh) (2008: 8.1). Biofuels accounted for 2% of the fuels used by Fortum in electricity generation in 2009 and 11% in heat generation. Fortum also

Fortum's climate targets by 2020 within the EU:

- Specific CO₂ emissions from power generation less than 80 g/kWh as a five-year average.
- Specific CO₂ emissions from heat production reduced by at least 10% from the 2006 level in each country.

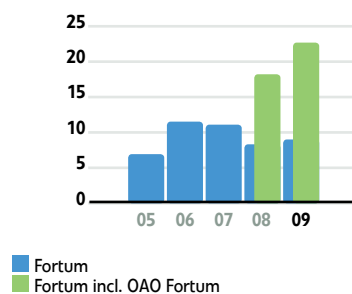
Fortum's climate targets outside the EU:

- Increase the energy efficiency of power plants and reduce specific emissions.

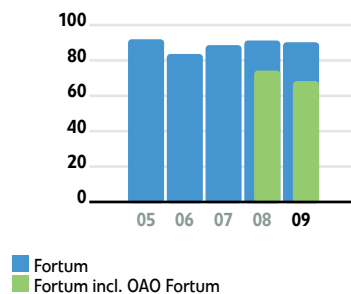
Fortum's other environmental responsibility targets:

- Environmental certifications for all operations by 2010 (in OAO Fortum by 2012).
- CO₂ emissions limit 180 g/km for Fortum's company cars as of April 2009.
- A 10% reduction in CO₂ emissions from company-related air travel in 2009 compared to the 2007 level.

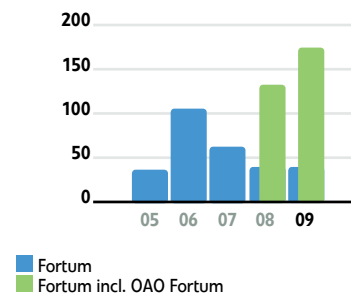
CO₂ emissions, Million tonnes



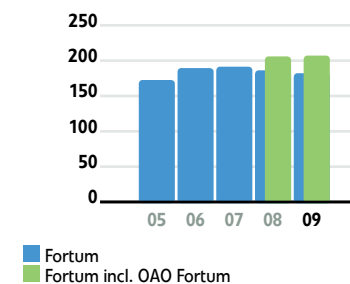
Share of CO₂-free energy sources in power generation, %



CO₂ emissions from power generation, g/kWh



CO₂ emissions from heat production, g/kWh



Graphs on pages 42–44: Environmental indicators are unverified and minor changes are possible during a later assurance process. Total emission figures include Meri-Pori and Kirkniemi power plants, although they were leased to another company in 2009.

uses waste as fuel in energy production. In 2009, 1.4 TWh of waste-derived fuels was used (2008: 1.7).

In March 2009, Fortum signed a declaration aiming to achieve a carbon-neutral power supply by the middle of this century. In the declaration, signed together with 61 European energy companies representing over 70% of all EU electricity production, the utilisation of electric technologies is considered an important element in reducing the carbon dioxide emissions also of other key sectors.

In addition to reducing CO₂ emissions, Fortum complies with the requirements of environmental permits, e.g. in terms of

sulphur and nitrogen oxide and particle emissions in the EU operations. Fortum's goal is to reduce these emissions in its Russian operations.

Kyoto mechanisms

Kyoto mechanisms are an important part of Fortum's climate strategy. The company has actively improved its competence and management related to the mechanisms and thus has been able to improve the cost efficiency of reducing emissions.

In 2009, Fortum continued the preparation of joint implementation projects in Russia. Project design documents (PDD) for a total of four TGC-1 projects

and one OAO Fortum project were finalised during 2009. Fortum estimates that it will receive about 3.5 million tonnes of emission reduction units (ERU) from the joint implementation projects in Russia during the Kyoto period 2008–2012, instead of the previously estimated 6.5 million tonnes.

Fortum's investments in international carbon funds started generating emission reductions in 2009. The World Bank's Prototype Carbon Fund (PCF) has delivered Certified Emission Reduction (CER) units since January 2009. The Testing Ground Facility fund, operating in the Baltic Sea region, started to deliver the emission reductions to its members

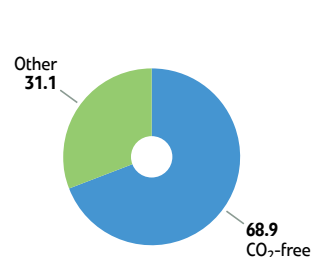
in December 2009. Fortum expects to receive a total of a million emission reduction units from the carbon funds.

Environmental certificates

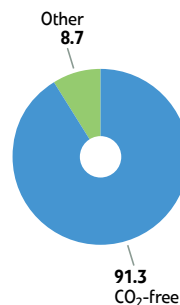
Comprehensive environmental certification is one way to develop Fortum's operations from an environmental perspective. The company's goal is to certify all operational activities according to ISO 14001.

At the end of 2009, about 99% (2008: 97) of Fortum's business operations in the EU were environmentally certified. Many of the operations also have ISO 9001/9002 and OHSAS 18001 certification.

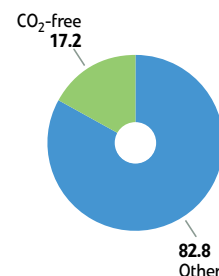
Share of CO₂-free energy sources in power generation, %



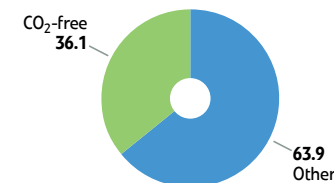
Share of CO₂-free energy sources in power generation, Europe, %



Share of CO₂-free energy sources in heat production, %



Share of CO₂-free energy sources in heat production, Europe, %



At OAO Fortum in Russia, the goal is to get ISO 14001 certification for the operations by 2012. The environmental, safety and quality certification covering the entire Polish business was completed in late October 2009. The heat business in Poland now has OHSAS 18001 safety certification, ISO 9001 quality certification and ISO 14001 environmental certification.

Water load and biodiversity

Hydropower production affects waterways because the range and cycle of their water level as well as flow rates are altered from their natural state. Fortum actively strives to mitigate the environ-

mental effects caused by hydropower production by participating in waterway restoration projects in Finland and Sweden. Fortum is also actively involved in the protection of the Baltic Sea.

In 2009, Fortum adopted a new Biodiversity Guideline supporting the protection of biodiversity. Fortum's direct impacts on biodiversity are mainly linked to the use of land and water areas in the production and transmission of energy.

Liabilities

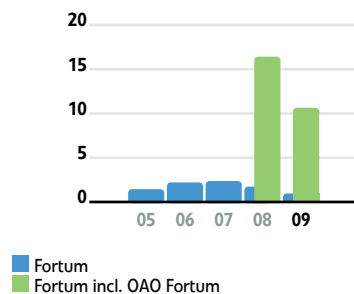
Fortum strives to systematically identify the environmental risks of its operations. An internal sustainability assessment procedure is applied to all signifi-

cant acquisition and investment projects. Fortum has evaluated the liabilities relating to past operations and has made the necessary provisions for any future remedial costs concerning environmental damage. Of the provisions for liabilities and charges included in the financial statements in 2009, EUR 11 million is for environmental liabilities. Such liabilities primarily relate to contaminated soil clean-up projects. In accordance with the Finnish Nuclear Energy Act, Fortum has made provisions for future costs relating to nuclear waste management.

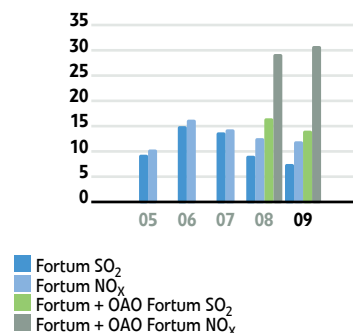
➔ Read more on page 163.

In 2009, Fortum recorded 17 (2008:16) cases of non-compliance with environmental regulations. Most of the cases were related to small, temporary exceedances of water level limits in regulated rivers and lakes. Fortum did not incur any consequences as a result of these cases.

Particulate emissions, 1,000 t



Sulphur and nitrogen emissions, 1,000 t



Social responsibility

Fortum aims to be a respected corporate citizen. For Fortum, corporate citizenship means responsible business conduct, an active dialogue with key stakeholders as well as support for selected programmes and projects.

An active dialogue and development of all operations are of key importance when targeting Fortum's strategic aim of being a responsible energy company. Fortum wants to develop its operations in cooperation with different stakeholders, such as employees, customers, regulators, shareholders, investors, business partners, non-governmental organisations and media.

➤ Read more on www.fortum.com/sustainability

Best safety performance in the sector

Fortum aims to continuously improve occupational safety. The ultimate goal is a workplace with zero accidents. Systematic and persistent efforts have led to a

significant decrease in the number of injuries in recent years. In 2009, safety was included as part of the company's strategic agenda with the goal of lowering the lost workday injury frequency to less than two. It was nearly achieved as the frequency rate was brought down to 2.4, the best safety performance ever at Fortum. There were no work-related fatalities among Fortum employees. Due to the ongoing integration process, the injury frequency is reported excluding OAO Fortum. The Environmental, Health and Safety (EHS) programme in OAO Fortum aims to develop the Russian operations to meet Fortum standards.

Contractor safety is as important

to Fortum as the safety of the company's own employees. In 2009, development of contractor safety focused on risk assessments, accident investigations and training. Commitment to occupational safety was also introduced as a selection criteria for contractors. In 2009, the injury frequency rate among contractors decreased to 6.5 (2008: 8.4). At OAO Fortum, there were two work-related fatalities of contractor employees in 2009. These, as well as all other accidents at Fortum were thoroughly investigated, resulting in a number of improvements to safety procedures.

The good safety development during 2009 can be attributed to many positive factors, e.g. high management attention, accident investigations and corrective actions, with a high focus on risk observation and assessment as well as internal safety campaigns and audits.

The goal for 2010 is to lower the injury frequency rate to less than one and to completely avoid fatalities in the whole group and with contractors.

Responsible procurement

Along with financial and quality assessments, sustainability is an integral and natural part of the assessment of suppliers in the procurement process. Since 2008, the target has been to attach Fortum's supplier code of conduct to purchase agreements exceeding EUR 50,000. In 2009, the code of conduct was attached to 85% of these agreements in

0

Our ultimate goal is a workplace with zero accidents.

Key safety figures

	2009	2008	2007
Lost workday injury frequency ¹⁾ , own personnel	2.4	4.3	2.9
Lost workday injury frequency ¹⁾ , contractors	6.5	8.2	12.5
Total recordable injuries per million working hours	6.0	9.4	7.6
Number of safety observation tours	8,479	8,731	6,450
Number of improvement proposals and near-miss reports	4,075	4,317	2,670

¹⁾ The number of accidents that have led to an absence of one or more full working day or working shift per million working hours.

Injuries

	2009	2008	2007
Lost workday injuries, own personnel	37	63	40
Lost workday injuries, contractors	51	47	47
Fatalities, own personnel	0	0	1
Fatalities, contractors	2	1	0

The figures do not include OAO Fortum, except the injuries from 2009.

Finland and Sweden. It was also taken into use in Poland and the Baltic countries.

Securing reliable supply of energy

Reliable energy supply is a prerequisite for a well-functioning society and that is why Fortum's goal is to secure an uninterrupted supply of energy to all its electricity distribution and heat customers. The reliability of Fortum's electricity networks was 99.9% in 2009. The reliability of district heating distribution in the Nordic countries, the Baltic countries and Poland was very good and no major disturbances occurred.

Another important activity for Fortum is the investments in automatic meter management (AMM). The new automatic electricity meters improve the ability of customers to manage their energy use as the electricity bill is based on actual consumption.

➤ Read more on page 59.

Responsible player in the electricity markets

In line with its Code of Conduct, Fortum follows good business practices in all of its operations. Integrity and high ethical standards define the company's activities in all countries of operation. Fortum's Market Conduct Rules ensure that the company's electricity wholesale business is conducted in compliance with the Electricity Market Act and Nord Pool guidelines as well as good business practices. Compliance with the requirements is additionally ensured through physical and technical constraints and with continuous training of personnel.

In line with the EU's internal electricity markets directive, Fortum supports the unbundling of regulated businesses from competed businesses.

This means that the electricity distribution business is independent – legally, operationally and in terms of decision-making – from the Group's functions not related to distribution. Fortum believes that unbundling increases competition in the electricity markets and ultimately benefits customers. Operating in line with the principles is ensured through personnel training, confidentiality obligations for subcontractors, and by separation of IT systems when technically feasible.

Support for society – targeted and concrete actions

Fortum renewed its sponsorship programme in 2009. The new programme supports Fortum's vision to excel in sustainability and to be the energy supplier for future generations. That is why the sponsorship programme focuses particularly on young people and on the environment and society.

In Sweden, Fortum supports national team-level track and field athletes, who have been trained as ambassadors of sustainable energy use. In Finland, Fortum started the Fortum Tutor programme in partnership with the Football Association of Finland. The goal of the programme is to develop the coaching of junior football players by supporting less-experienced coaches and instructors of junior football. In Russia, OAO Fortum supports the Tractor Hockey School of Olympic Reserve.

In the field of culture, Fortum's Art Foundation continues lending out several of its valuable pieces of art to different art exhibitions. Fortum also owns a Jean Baptiste Vuillaume violin, which is lent out to advanced students at the Sibelius Academy in Finland. In Sweden, Fortum cooperates with Skansen open

air museum to create entertaining and educational activities related to sustainability for students and other visitors.

In addition to sports and culture, Fortum is involved in many social projects. Fortum continued to participate in several projects with students and teachers in primary and secondary schools, high schools, vocational schools and universities. High school and vocational school students can study energy issues in Finland through the Energia-kompassi programme (Energy Compass) and in Sweden through the Energi-snackis programme. The programmes are designed to spark a dialogue about energy and environmental issues and to promote the sustainable use of energy.

Additionally, Fortum has contributed to the John Nurminen Foundation's Clean Baltic Sea project aiming at reducing phosphorous discharges from municipal sources in Poland.



➤ Lighting brings comfort and safety

Fortum works in collaboration with various cities and municipalities in the Nordic countries. One form of collaboration is the effort to improve the safety and comfort of residents by lighting public places, such as parks and tunnels. All illumination projects are implemented as energy efficiently as possible. Local residents have the opportunity to influence the selection of illumination locations through online voting. During 2009, the lighting at the Tapiola bus terminal in Espoo and the Ahdinpuisto area in Joensuu in Finland as well as the Mariatorget area in Stockholm, Sweden, were among the projects finalised.

Personnel

Fortum personnel's competence and performance development is based on regular feedback, annual performance and development discussions, as well as on the development of tools and processes supporting operations.

32%

Women accounted for 32% of corporate and division management at Fortum.

The number of Fortum employees decreased in 2009 and was an average of 13,278 (2008: 14,077). A significant share of the reductions took place in the Russian operations, where the discontinuation of the operation and maintenance agreement with the city of Tyumen, for example, led to a reduction of about 750 employees. In the Nordic countries, the biggest measure affecting the number of personnel was the outsourcing of the infrastructure services to Infratek ASA in January 2009. Through this measure, 646 people transferred from the Group's payroll in Sweden, 139 in Norway and 147 in Finland. Altogether Corporate divestments and efficiency boosting

measures reduced the number of personnel by 4,055 (2008: 318) in 2009.

Of Fortum's personnel in 2009, 11,332 (2008: 15,064) held permanent positions. The most predominant type of employment was full-time; 2.1% of employees were employed part-time (2008: 2.2). Part-time employment was, as a rule, based on the individuals' own preferences. Women represented 30.5% of Fortum's workforce and accounted for 32.3% of corporate and division management.

The average age of Fortum employees was 46, and the share of personnel over the age of 50 years was 38%. The number of new recruits was 451. Employees' transitioning to retirement is a chal-

lenge for the Group, but provisions have been made through focused investments in employer image, resource planning, transfer of knowledge and know-how, and competence development of the personnel.

The integration of OAO Fortum's personnel with Fortum progressed as planned, and the integration team, made up of Fortum's special experts, completed its work during the first half of 2009. During the past year, a particular focus in the Russian operations was on management and employee development.

A positive employer image

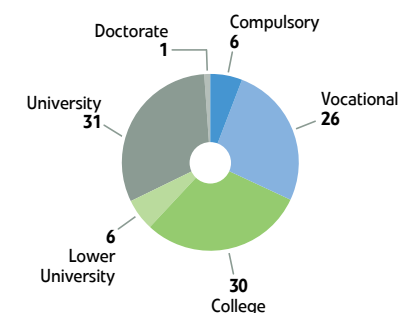
Fortum's investments in developing its

Key figures

	2009	2008	Change %
Average number of employees	13,278	14,077	-5.7
Number of employees at 31 Dec.	11,613	15,579	-25.5
of whom permanently employed	11,332	15,064	-24.8
Duration of employment, years	14	15	-6.7
Average age of employees	46	44	4.5
Female, %	31	29	6.9
Women in management positions, %	32	33	-3.0
Health care expenditure ¹⁾ , EUR per person	484	428	13.1
Expenditure on recreation and leisure activities ¹⁾ , % of salaries paid on working time	0.4	0.4	0.0

¹⁾ Finland

Level of education, 31 December 2009, %



employer image have produced good results. In 2009, Fortum improved its ranking significantly in various employer image surveys in Finland and Sweden. Also, Fortum's career web pages were ranked as the best in Europe by Hallvarsson & Hallvarsson Employer Branding.

The Fortum Ambassador programme promoting a positive employer image was launched in 2009 in Finland and Sweden. The about 70 active Fortum Ambassadors participate in student events and exhibitions where they discuss career opportunities and working at Fortum.

Strength in tomorrow's talent

During 2009 Fortum launched several new online tools to support the HR work of supervisors, to boost resource planning efficiency and to help prepare for the future labour needs early enough.

Furthermore, Fortum's first trainee programme, Fortum Forerunner, was launched in January 2009. There are 13 young trainees from Finland, Sweden,

Poland, Latvia and Russia participating in the 18-month programme. The programme gives the trainees an opportunity to work in various jobs in two different divisions or business areas. The ongoing programme features two main themes: successful business in Russia and the development of personal leadership skills. The programme also complements the existing collaboration channels and projects between Fortum and academia.

Personnel competence and performance development

Fortum's personnel competence and performance development is based on standardised feedback processes, annual development and performance discussions and the development of supporting tools and processes. Individual or team-specific targets are set to support the strategy; achieving these targets forms the foundation for the bonuses to be paid.

➤ Read more on pages 74–77.

Job rotation has traditionally and actively been used at Fortum as a way of developing the competence of the organisation and the personnel. In 2009, Fortum had 418 internal vacancies (2008: 573) in Finland and Sweden. In 2009, 81 Fortum employees were on a foreign work assignment. The reorganisation in effect from 1 October offered many Fortum employees an opportunity to develop their professional skills through new jobs and job rotation.

Leadership skills were developed through the long-term programmes Fortum Challenger and Manager. Additionally, a new training programme, Fortum Expert, was launched and is aimed at individuals working in an expert capacity. At the same time, Fortum Expert Profile, a 360-degree feedback process for experts, was introduced. Fortum Leader Profile, the 360-degree feedback process for managers, was also implemented in 2009. Fortum's internal Master courses were used to strengthen

various supervisory skills. The number of individuals participating in Fortum's training programmes was 353.

Fortum has a long tradition in personnel surveys, and the renewed Fortum Sound employee survey was carried out in 2009. The survey response rate was 81%. Based on the results, it was concluded that boosting the efficiency of internal communications, particularly in the areas of social responsibility, cross-unit cooperation, and giving personnel the credit it deserves, can further develop these sub-areas.

By actively developing the personnel, the HR functions and the organisation, Fortum will tackle the challenges of the next decade as a more uniform, efficient and capable company.

Number of employees, 31 December

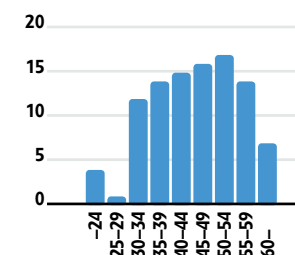
	2009	2008	Change %
Power	3,063	3,520	-13.0
Heat	2,246	2,318	-3.1
Distribution	1,088	1,336	-18.6
Markets	611	635	-3.8
Russia	4,090	7,262	-43.7
Other operations	515	508	1.4
Total	11,613	15,579	-25.5

Number of employees by country, 31 December

	2009	2008	Change %
Russia	4,853	7,262	-33.2
Sweden	2,445	3,436	-28.8
Finland	2,700	3,045	-11.3
Poland	756	767	-1.4
Estonia	357	333	7.2
Norway	143	292	-51.0
Other countries	359	444	-19.1
Total	11,613	15,579	-25.5

Age distribution, years, %

31 December 2009



Economic responsibility

For Fortum, economic responsibility means generating economic well-being and support for all our regions of operation as well as creating added value for our shareholders, customers, employees, suppliers and other significant stakeholders.

Strong financial performance and long-term business profitability are prerequisites for taking care of our responsibility towards the environment and society. For Fortum, they are also vital in order to actively promote sustainability. On the other hand, Fortum believes that sustainability is a success factor for the business.

Fortum is one of the lowest-emitting energy companies in its operating area. In addition, 95% of Fortum's current investment programme in the EU is targeted to CO₂-free production. In Fortum's European operations, where CO₂ has a market value, CO₂-free energy production is a clear economic benefit for

the company. This is one example of how sustainability and business success can go hand in hand.

Market leader in eco-labelled electricity

Fortum is the largest provider of eco-labelled electricity in the Nordic countries. During 2009, the company started providing only CO₂-free electricity to its business and private customers in Finland and Sweden. Additionally, consumers buying electricity from other providers in Norway can reduce their carbon dioxide emissions by purchasing CO₂-free certificates of origin from Fortum.

The origin of CO₂-free electricity is guaranteed with certificates issued by national nature conservation associations or in accordance with the European guarantee of origin system.

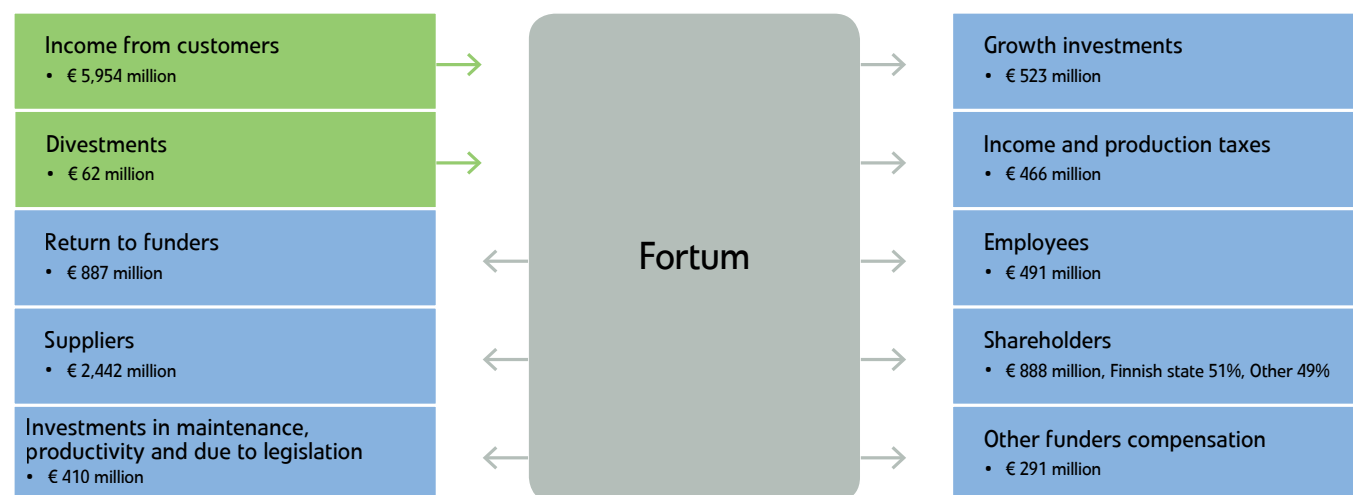
For business customers, the Fortum Carbon Free label is used for electricity produced without CO₂ emissions, and the Fortum Renewable label is for electricity produced entirely from renewable energy sources.

➤ Read more on page 61.

Climate-benign heat

At the beginning of 2009, Fortum became the first district heating company to offer customers in Sweden's Stockholm

Fortum's economic impacts in 2009



region climate-neutral district heating in which Fortum offsets the CO₂ emissions caused by its generation. In Finland, Fortum's district heating operations have received the Fair district heating (Reilu kaukolämpö) quality label issued by the Finnish Energy Industries.

Experts in energy efficiency

Fortum offers its business customers also energy efficiency services. The Ecotuning® service aims to improve the operational economy of power plants by increasing the output of the customer's power plant and decreasing the emissions. The service includes optimisation of power plant processes and training for personnel. In 2009, Ecotuning® projects were implemented together with, e.g. Göteborg Energi. Additionally, Fortum offered its customers energy efficiency analyses and services to improve plant availability. Fortum also strives to continuously improve the energy efficiency of its own plants and to minimise energy losses in electricity distribution.

Fortum supports the energy saving efforts of its consumer customers and its personnel through active communications and by offering advice on ways to improve energy efficiency both at home and at work.

Successful deployment of climate-benign R&D

Fortum's R&D vision is to enable a carbon dioxide-free future in line with

the company's sustainability goals. Hence, technologies curbing the climate change are prominently represented in Fortum's R&D activities. Fortum's R&D programmes focus on carbon capture and storage (CCS), new bioenergy technologies and sustainable energy systems. Nuclear energy research and development is also strongly represented in the overall R&D portfolio. In addition, Fortum is involved in the development of electric transportation. Fortum's role is to study and create the prerequisites for the wide-scale adoption of electric vehicles.

➤ Read more on page 38–39.

Rewards and recognitions

Fortum received several significant external recognitions for its sustainability performance in 2009. For the seventh year in a row, the company secured its place on the Dow Jones Sustainability World Index. For the second consecutive year, Fortum is also included in the Dow Jones STOXX Sustainability Index.

Furthermore, Fortum was included for the third time in the Climate Disclosure Leadership Index (CDLI), a prestigious honour for global corporations which are able to best address the challenges of climate change. Fortum improved its ranking in the index compared to last year. In the Carbon Disclosure Project's study, Fortum ranked as the best of the Nordic electricity producers as well as the best of the Finnish companies.

Fortum is also included on Store-

brand's global "Best in Class" list as the most responsible energy company. Additionally, Fortum was ranked the number-one Nordic company in mitigating climate change in the report published by Ethix SRI Advisors and Insight Investment.





FORTUM IS THE **4TH** BIGGEST HEAT PRODUCER IN THE WORLD

OAO Fortum operates in the Tyumen and Chelyabinsk areas which are located in the Urals. OAO Fortum is the main heat supplier in the region with total sales of 25.6 TWh/a. Heat is produced in combined heat and power (CHP) plants.

CHAPTER 5 DIVISIONS

Fortum reorganised its business structure around four business divisions and four staff functions in order to increase the organisation's efficiency, performance accountability and simplicity. The change took effect on 1 October 2009.

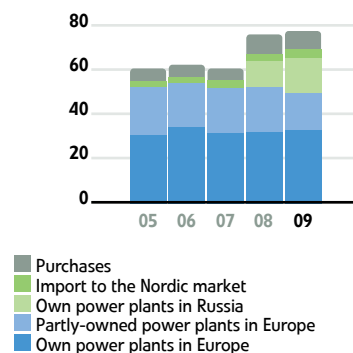
The Power Division consists of Fortum's power generation, physical operation and trading, operation, maintenance and development of power plants as well as expert services for power producers.

The Heat Division consists of combined heat and power generation, district heating activities and business-to-business heating solutions.

The Electricity Solutions and Distribution Division is responsible for Fortum's electricity sales, solutions and distribution activities. The division consists of two business areas: Distribution and Markets.

The Russia Division consists of power and heat generation and sales in Russia. It includes OAO Fortum and Fortum's over 25% holding in TGC-1.

Fortum's total electricity procurement by type, TWh



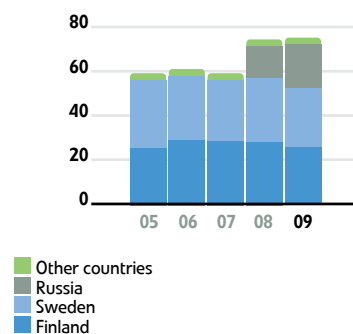
Fortum's power generation capacity, 31 December 2009

MW	Finland	Sweden	Russia	Other	Total
Hydropower	1,505	3,161			4,666
Nuclear power	1,433	1,779			3,212
Combined heat and power	776	536	2,785	174	4,271
Condensing power	1,376	297			1,673
Other	6	112			118
Total	5,096	5,885	2,785	174	13,940

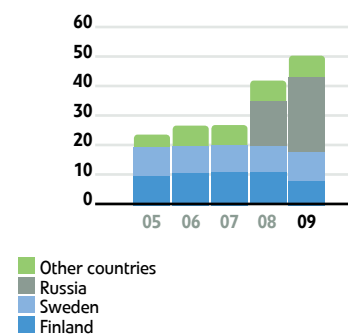
Fortum's heat production capacity, 31 December 2009

MW	Finland	Sweden	Russia	Other	Total
Heat	3,540	4,667	13,796	2,327	24,330

Fortum's total electricity sales by area ⁽¹⁾ TWh



Fortum's total heat sales by area, TWh



Fortum's power generation by source

TWh	2009	2008
Hydro	22.1	22.9
Nuclear	21.4	23.7
Thermal	5.8	6.0
Total in EU and Norway	49.3	52.6
Thermal in Russia	16.0	11.6
Total	65.3	64.2

¹⁾ Power, Heat and Markets sell electricity to Nord Pool or external customers and purchase electricity from Nord Pool or other external sources. Fortum's Nord Pool transactions are calculated as a net amount of hourly sales and purchases at the Group level. The Russia Division sells electricity to the Russian wholesale market.

Power

The Power Division is responsible for Fortum's power production and physical trading in the Nord Pool market, developing new power capacity and providing operation, maintenance and expert services for power producers.

The Power Division operates in the Nordic countries and selectively in other markets where the division's strengths can be utilised. Power also participates actively in shaping the open European energy markets. The division's goal is to be the best operator in the industry – now and in the future.

Solid financial result

The Power Division's financial result remained on a good level although the division's comparable operating profit was lower than last year. This was mainly due to the lower hydropower and nuclear generation volumes. The division's achieved Nordic power price was EUR

49.8 per megawatt-hour (MWh) (2008: 49.3), i.e. approximately the same level as the previous year, mainly thanks to hedging. The related sales volume was 45.2 TWh (2008: 48.4).

At year-end, the division's power generating capacity totalled 9,709 megawatts (MW) (2008: 9,575), of which 9,569 MW (2008: 9,435) was in the Nordic countries and 140 MW (2008: 140) in the UK.

Strong CO₂-free production portfolio

Power has a strong focus on nuclear, hydro and new energy solutions. It runs approximately 300 power plants in Finland and Sweden that generated

43.7 terawatt-hours (TWh) (2008: 46.9) of power in 2009 for the Nordic market. Over the year, approximately 97% of the division's production was carbon dioxide-free and 49% was based on renewable energy sources.

Compared to the previous year, hydro-power generation decreased due to the lower precipitation and inflows into Nordic water reservoirs. 2008 was an exceptionally good hydro year. Thermal production decreased due to low spot-price levels as well as high fuel and CO₂ prices. The decrease in Nordic nuclear power generation was mainly due to the extensive power increase and safety modernisation outage in the partly-

Key figures

EUR million	2009	2008	Change %
Sales	2,596	2,892	-10.2
power sales	2,414	2,566	-5.9
other sales	182	326	-44.2
Operating profit	1,335	1,599	-16.5
Comparable operating profit	1,469	1,528	-3.9
Net assets (at end of period)	5,512	5,331	3.4
Return on net assets, %	23.9	29.6	-19.3
Comparable return on net assets, %	26.6	28.0	-5.0
Gross investments	154	134	14.9
Number of employees, 31 Dec	3,063	3,520	-13.0

Division's power generation by source

TWh	2009	2008
Hydro	22.1	22.9
Nuclear	21.4	23.7
Thermal	0.2	0.3
Total in the Nordic	43.7	46.9
Thermal in other countries	1.2	1.0
Total	44.9	47.9

Divisions's Nordic electricity sales volume

TWh	2009	2008
Sales	48.8	52.1
of which pass-through sales	3.6	3.7

Division's Nordic sales price

EUR/MWh	2009	2008
Division's power price ¹⁾	49.8	49.3

¹⁾For the Power Division in the Nordic area, excluding pass-through sales.

owned Swedish Oskarshamn 3 nuclear power plant unit. Normal planned annual outages were carried out in all reactors. Especially Loviisa's nuclear power plant availability remained at a record-high level.

Power's investments aim at improving safety, upgrading the existing plant fleet and expanding production as well as adding capacity by focusing on CO₂-free power generation.

➤ Read more about the Power Division's investments on page 33–34.

Operation, maintenance and expert services for power producers

Power offers operation and maintenance

(O&M) services as well as versatile expert services to power and heat companies and to industrial companies that have their own power production. The division aims to offer these services in Fortum's home market as well as selected international markets.

Fortum's highly specialised turbine overhaul services are well-known in the market. In 2009, Fortum won several significant major turbine overhaul and modernisation contracts. In Finland its customers include Rautaruukki, UPM-Kymmene and Stora Enso and in Germany Kraftwerk Burghausen GmbH. The projects will be executed in 2010 and 2011. In Austria, Fortum executed

an overhaul for Linz Strom GmbH in summer 2009.

Fortum supported also external customers in many other significant projects during 2009. Fortum was responsible for the combustion technology modification in the Krakow power plant in Poland and performed power plant audits in the Lukoil-owned TGC-8 in Russia. In addition, Fortum has worked collaboratively to improve the operational efficiency of Göteborg Energi's power and heating plants under the new Fortum Ecotuning® product.

R&D to support climate change mitigation

The Power Division accounts for the most of Fortum's R&D expenditure. The work is aimed at securing the continuous and very efficient operation of power plants and developing sustainable solutions for new power generation. The main focus of this work has been to develop and enhance the availability of existing power plants and follow-up new production technologies. Within nuclear power, R&D work has focused on nuclear safety and waste management. New R&D areas include developing a nuclear power plant utilising CHP technology, preparations for a full-scale demo plant using carbon capture and storage technology and participation in wave power initiatives.

➤ Read more on pages 38–39.

➤ A new O&M contract in Germany

Fortum signed another long-term operation and maintenance contract with Trianel Power Kohlekraftwerk Lünen GmbH & Co. KG covering the new 750-MW coal-fired power plant in Lünen. The power plant will be commissioned in autumn 2012 and represents a new ultra-supercritical technology that enables a 30% reduction in CO₂ emissions compared to existing old plants. The technology developed in Japan is to be applied in Europe for the first time. O&M mobilisation is proceeding according to plans and the first recruitments of the overall staff of 60 persons have been made.



Heat

Heat completed three combined heat and power (CHP) plant projects in 2009 and the new plants are operating at full speed.

Heat concentrates on CHP, district heating and business-to-business heating solutions. It owns and operates 22 (2008: 20) CHP plants and several hundred heat plants in the Nordic and Baltic countries as well as in Poland. Heat is also a competence centre for waste-to-energy production and district cooling. Its customers are industrial companies, municipalities and district heating end-users.

The division's goal is to become the benchmark in the heating industry. When counting the Heat and Russia divisions together, Fortum is the fourth biggest heat producer in the world today.

Divestments affected volumes

The division's heat sales totalled 22.9 terawatt-hours (TWh) (2008: 24.9), of which Finland and Sweden accounted for 8.0 TWh (2008: 10.8) and 9.8 TWh (2008: 9.1), respectively, and other countries for 5.1 TWh (2008: 5.0). Some divestments and weaker demand in the industrial customer segment in Finland reduced sales volumes. In the Nordic countries, industrial steam accounted for 2.6 TWh (2008: 4.4) and district heating for 15.3 TWh (2008: 15.6). Power generation at CHP plants was 4.4 TWh (2008: 4.7).

The comparable operating profit for the division was 227 million euros

(2008: 250). The decrease was mainly due to weaker currencies in Sweden and Poland, especially in the first half of the year.

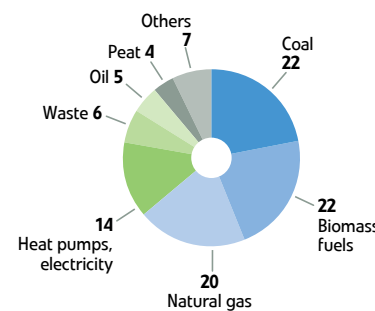
CHP - a future energy solution

Heat believes that climate-benign CHP is a competitive future solution for producing energy. It delivers a number of environmental and economic benefits. In combined heat and power production, nearly 90% of the energy contained in the fuel is utilised. CHP has a central role in reducing the environmental load and fulfilling the objectives set for the reduction of greenhouse gas emissions. Accordingly, the division has a long-term invest-

Key figures

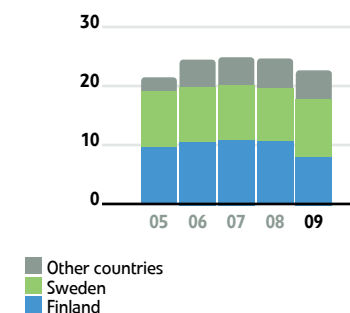
EUR million	2009	2008	Change %
Sales	1,394	1,466	-4.9
heat sales	1,054	1,120	-5.9
power sales	224	228	-1.8
other sales	116	118	-1.7
Operating profit	248	307	-19.2
Comparable operating profit	227	250	-9.2
Net assets (at end of period)	3,786	3,468	9.2
Return on net assets, %	7.8	8.9	-12.4
Comparable return on net assets, %	7.2	7.3	-1.4
Gross investments	359	431	-16.7
Number of employees, 31 Dec	2,246	2,318	-3.1

Fortum's European heat production by source, %



23.2 TWh in 2009

Division's district heating and industrial steam sales by area, TWh



ment programme concentrating on new CHP to replace old heat-only production and to increase electricity generation.

New power plants taken into use

During 2009, Fortum took into operation three new CHP plants. A new gas-fired CHP unit adjacent to the existing power plant in Espoo, Finland, was taken into commercial use in December 2009. The capacity of the new power plant is 234 megawatts (MW) heat and 214 MW electricity. Thanks to the investment, the specific CO₂ emissions of the site are reduced by 10%. The plant will increase the division's annual electricity generation by around 1 TWh. In parallel to the power plant investment, Fortum also invested into a new, 13-kilometre-long district heating pipeline in Espoo.

A new peat and biomass-fired CHP plant in Tartu, Estonia, was taken into use in March. The capacity of the power plant is 50 MW heat and 25 MW elec-

tricity. Also a gas-engine-fired CHP plant in Jelgava, Latvia, started commercial operation in June. The capacity of the power plant is 5 MW heat and 4 MW electricity. These two new plants contribute to the division's annual electricity generation with about 0.1 TWh.

The division is building new CHP plants in Częstochowa, Poland, and Pärnu, Estonia, as well as planning new investments in Sweden.

➔ Read more on pages 32–33.

Ensuring long-term competitiveness

Heat has taken systematic steps to create and maintain optimal heat operations and asset base. Actions taken in Finland already in 2008 included divestment of the production facilities in Jyväskylä, the gas turbine in Hyvinkää and the heat operation in Tornio.

The programme continued during 2009 with the divestment of some remaining non-core assets. In May, the

peat bogs in Jyväskylä were sold to Vapo Oy, and, in August, the CHP plant in Kokkola, Finland, was sold to the city of Kokkola.

Towards a sustainable future

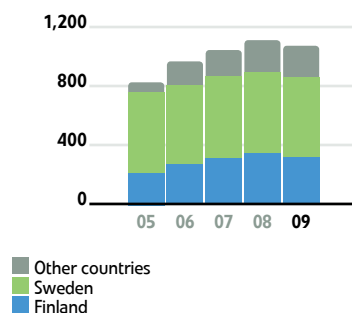
Sustainable energy production and safe operations are key to competitive business. The long-term target of the division is to reduce the specific CO₂ emissions in heat production by 10% compared to the 2006 level by 2020. The division contributes to climate change mitigation by promoting CHP production and district heating and by enhancing renewable fuels in its energy production.

The environmental, safety and quality certification covering the entire Polish business was completed in late October. The heat business in Poland now has OHSAS 18001 safety certification, ISO 9001 quality certification and ISO 14001 environmental certification. Today, Heat has fully certified businesses in Finland, Poland and Latvia.

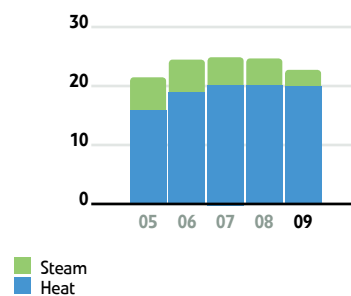
Profitable growth

In the coming years, Heat will focus on ensuring profitable growth, sustainable operations, satisfied customers in its key areas and successful completion of its long-term CHP investment programme. New growth opportunities will be actively explored.

Division's district heating and industrial steam sales by area, EUR million

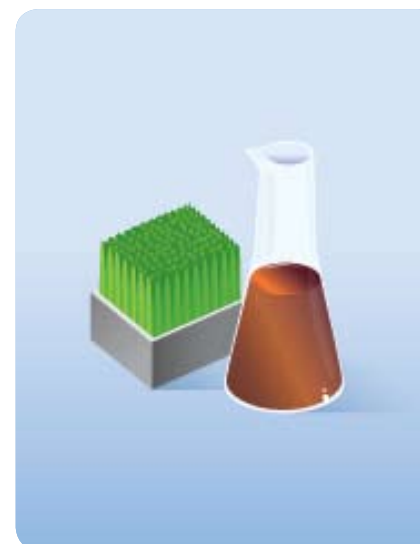


Division's district heating and industrial steam sales, TWh



Fortum, Metso, UPM and VTT are jointly developing a clean energy alternative with domestic bio-oil

In November 2009, Fortum announced its participation in the joint bio-oil development project with Finnish partners. Within the project, a new integrated bio-oil business concept will be developed. The integration of bio-oil production to the combined heat and power production and the use of bio-oil as carbon-dioxide-neutral fuel is a promising option in the range of methods to reduce CO₂ emissions within heat production.



Electricity Solutions and Distribution: Distribution

Remote disconnectors and new smart meters are two concrete measures towards a more automated, flexible and reliable grid – features of a future “smart grid”. Electricity network development planning is based on customer needs and is aligned with long-term sustainable urban development.

The Distribution business area owns, operates and develops local and regional distribution networks as well as supplies safe electricity with 99.9% reliability to a total of 1.6 million customers in Sweden, Finland, Norway and Estonia. Fortum's networks have a combined length of 156,100 km, corresponding to 3.5 times around the globe.

During 2009, the total volume of local and regional network transmissions was 25.9 terawatt-hours (TWh) (2008: 25.8) and 16.4 TWh (2008: 17.7), respectively. The electricity transmitted in the regional distribution network totalled 13.6 TWh in Sweden (2008: 14.8) and 2.8 TWh in Finland (2008: 2.9).

Based on volume transmitted in the <20 kilo-volt (kV) local network, the market share of electricity distribution was 20% in Finland (2008: 19), 15% in Sweden (2008: 14), 3% in Norway (2008: 3) and 3% in Estonia (2008: 3). In the Finnish electricity market, one single player is allowed a maximum market share of 25% of the electricity distributed in the 0.4 kV network across the country. Fortum's share at the end of 2009 was 20%.

Long-term efficiency and profitability in focus

The comparable operating profit for the business area increased and was 262 million euros (2008: 248). Colder weather

increased sales in 2009 compared to 2008. The result was affected by a weaker average currency in Sweden. The main part of the finalisation costs from the Swedish automatic meter management (AMM) project was taken in 2008 and did not affect the 2009 results.

Distribution aims for long-term efficiency and profitability improvements by developing its operations. An efficiency programme launched in 2008 was finalised in 2009. The focus was to improve customer service, increase efficiency in internal processes and secure the long-term competitiveness of the business. As part of the programme, centralisation of the workforce to the headquarters in Finland and to Stockholm and Karlstad in Sweden continued. The positive effects of the programme have started to pay off.

In Sweden, the second phase of outsourcing the field construction services was implemented during the year, according to plan. A contract with Eltel Networks was signed in August 2009, affecting 65 employees. By completing the outsourcing, Fortum is contributing to the creation of a well-functioning external market for construction services.

Reliable electricity distribution

Reliable distribution of electricity to customers is Distribution's number-one priority. To maintain and further improve reliability and quality, the company continuously invests in its

Key figures

EUR million	2009	2008	Change %
Sales	800	789	1.4
distribution network transmission	685	669	2.4
regional network transmission	75	77	-2.6
other sales	40	43	-7.0
Operating profit	263	248	6.0
Comparable operating profit	262	248	5.6
Net assets (at end of period)	3,299	3,032	8.8
Return on net assets, %	8.7	8.1	7.4
Comparable return on net assets, %	8.6	8.2	4.9
Gross investments	193	296	-34.8
Number of employees, 31 Dec	1,088	1,336	-18.6

Number of electricity distribution customers by area, 31 December

thousands	2009	2008
Sweden	895	877
Finland	611	606
Norway	99	99
Estonia	24	24
Total	1,629	1,606

Volume of distributed electricity in distribution networks

TWh	2009	2008
Sweden	14.0	14.0
Finland	9.4	9.3
Norway	2.3	2.3
Estonia	0.2	0.2
Total	25.9	25.8

electricity networks.

Network development planning is based on customer needs and is aligned with long-term sustainable urban development. In 2009, 900 km of middle voltage lines were secured by cabling and other measures, such as by installing remote-controlled disconnectors. Disconnectors allow the operations centre to quickly identify and isolate a fault and thereby reduce the number of affected customers and average outage times. New, smart electricity meters with two-way communication also provide the operations centre with more detailed information about faults at a household level. Remote disconnectors and new smart meters are two concrete measures towards a more automated, flexible and reliable grid – features of a future “smart grid”.

Preparing for AMM installations in Finland

In 2009, the rollout of AMM in Sweden was finalised. Altogether 844,000 network customers in Sweden now have the new self-reporting electricity meter – smart meter – installed and receive invoices based on actual consumption. For the customer, this means better control and understanding of electricity usage. It also helps to improve the energy efficiency and thus benefits the customer and the environment. The new Swedish legislation on monthly meter reading came into effect on 1 July 2009.

The AMM installations in Finland will start in mid-2010. At the end of August 2009, Fortum signed a contract with the AMM service provider Telvent. The total value of the investment, including the procurement of the smart meters, installing, operating and developing the system as well as related services is approximately EUR 170 million over a period of nine years. New smart meters will be installed for 550,000 network customers. The new Finnish legislation stipulating hourly meter readings will be effective as of 1 January 2014.

Planning for the introduction of AMM in Norway continues. The preliminary legal deadline is set for 2016.

Regulatory development

The distribution business is regulated and supervised by national authorities. Fortum's goal is to secure a consistent development of the future regulatory framework.

In 2009, a step towards a more harmonised framework in the Nordic region was taken. The Swedish Parliament made a formal decision regarding the Ex-Ante Regulation in Sweden starting from 2012, in which net pricing will be determined in advance. The Swedish Energy Market Inspectorate (EI) delivered an investigation regarding the handling of capital costs and basic principles of the new regulation model. The investigation was presented to the Government and a decision is expected

during the first half of 2010. EI also launched a report with principles for the intermediate period 2008-2011. The aim is for a seamless transition period from present ex-post regulation to future ex-ante. Fortum expects the new regulation to give more stable and predictable prerequisites for the Swedish distribution business in the coming years.

In Finland, the present income regulation methodology is continuously being developed and the parameters fine-tuned. The Finnish Energy Market Inspectorate (EMV) initiated “Road map 2020”, a project to review the integrity of the present income regulation model and parameters. The present regulation

period ends in 2011.

In Norway, the Parliament changed the Energy Act and opened up investigations for development of the electricity market. The Parliament also initiated an investigation of the present regulation to analyse if the regulation fits the political goals. Detailed regulation is expected from the Norwegian Energy Market Inspectorate (NVE) regarding the minimum sourcing of the business.

➤ Electricity in transportation helps mitigate climate change

In 2008, Distribution initiated a corporate wide project to study the introduction of electric vehicles in Finland and Sweden. It continued in 2009 by testing technologies and recharging solutions for electric vehicles.

In 2009, Fortum cooperated with Mitsubishi in the marketing of iMiEV, the first battery-powered electric vehicle designed for the mass market. Fortum is also developing a new electric concept car in collaboration with the Finnish Valmet Automotive.

About 100 recharging points were installed during 2009 in Stockholm in cooperation with Stockholm City, Stockholm Parking, Skanska and Preem's service stations, among others.



Electricity Solutions and Distribution: Markets

Customers benefit from Fortum's extensive knowledge of the Nordic consumer markets and from its ability to develop products and services spanning national boundaries.

Fortum is one of the leading electricity retail companies in the Nordic electricity markets. A total of about 1.2 million (2008: 1.3) private and business customers in Finland, Sweden and Norway use the company's climate-benign products and services.

Markets buys all its physical electricity through the Nord Pool power exchange. Additionally, Markets acquires environmental values from Nordic producers of eco-labelled electricity and is the leading seller of eco-labelled and CO₂-free electricity in the Nordic countries.

Tougher competition in Nordic retail markets

In 2009, Markets' electricity sales totalled 30.0 terawatt-hours (TWh) (2008: 36.6). The continued, tight competition in the Nordic retail markets and the lower industrial consumption contributed to the decrease in sales. Of the total electricity volumes, 70% was sold to business customers and 30% to private customers. Additionally, Markets' customers include Finnish and Swedish electricity retailers.

The frequency at which consumers switch electricity suppliers is clearly on the rise in all Nordic electricity markets; in Finland, for example, some 200,000 customers switched suppliers during

2009. This has meant tighter competition of customers. However, Markets has prioritised profitability over growing the number of customers.

Also the recession had an impact on Markets' electricity sales. Sales volumes, particularly to business customers, decreased during the year as a result of the considerably lower electricity consumption by industry and the expiration of the electricity contracts of a few large customers.

Finances balanced

Markets' financial result improved considerably and the comparable operating profit amounted to EUR 22

Key figures

EUR million	2009	2008	Change %
Sales	1,449	1,922	-24.6
power sales	1,417	1,865	-24.0
other sales	32	57	-43.9
Operating profit	22	-35	162.9
Comparable operating profit	22	-33	166.7
Net assets (at end of period)	147	188	-21.8
Return on net assets, %	16.8	-14.0	220.0
Comparable return on net assets, %	18.6	-15.3	221.6
Gross investments	1	3	-66.7
Number of employees, 31 Dec	611	635	-3.8

Internet a key sales and communication channel

Fortum has defined climate change mitigation as one of its most important future goals. The company's efforts to get customers to start using the internet to take care of business with Fortum and thus reduce paper consumption also support this goal.

In 2009, Markets introduced Consumer e-billing, which aims to reduce the number of electricity bills sent on paper and thus conserve nature. It has been estimated that the stack of paper previously used in Markets' customer communications and billing during one year would reach two kilometres high.



million in 2009 (2008: -33). Measures initiated through the extensive efficiency programme launched in 2008 were successful and turned Markets' result to clearly positive. Renewed products, restructured pricing and tight cost controls were most instrumental in turning the result around.

In early 2009, as a consequence of the product renewal, Markets tightened the link in Finland between the current-price Kesto contracts for households and the price development of wholesale electricity. The contract prices are now updated every three months and pricing is thus more transparent than before. Transparency is also increased by giving customers advance notice of the timing of each procurement and price period. Customers can use Fortum's online service to track the formation of the price for the next price period.

Also the fixed-term Takuu contracts and the Tarkka power exchange product are tightly and logically linked to fluctuations in the wholesale price of electricity. Changing the pricing clearly improved the profitability of the Kesto contracts.

CO₂-free electricity highlighted in consumer products

In addition to price, electricity production method became a new competitive factor during the year. An increasing number of household and business customers expect electricity retailers to provide information about the origin of the electricity they sell.

The customers' increased interest was also reflected in the product development work of electricity retailers; in this work, the origin of electricity has become a key product attribute.

In 2009, Markets began selling only electricity that is produced without CO₂ emissions to its consumer customers. In Finland, the electricity sold to all customers is produced entirely by hydropower and customers also have the option of purchasing electricity generated by wind power for a small, additional cost. All customers in Sweden also automatically receive electricity that is produced without CO₂ emissions. For an additional fee, customers can choose electricity produced by hydropower or wind power.

In Norway, electricity purchased from Fortum automatically comes with a guarantee of origin. Additionally, Norwegians purchasing electricity from other retailers can decrease their carbon footprint by buying CO₂-free guarantees of origin from Fortum.

The product offering to business customers was also renewed in 2009 and now all electricity sold by Fortum to business customers is CO₂-free. The most environmentally-conscious businesses can opt for electricity produced with renewable energy sources.

Open dialogue with customers

To achieve and nurture a high level of customer satisfaction, listening to customers and engaging in an open

dialogue about all issues related to the company's services is of utmost importance to Markets. For several years, Fortum has held consumer councils specifically for this purpose in different municipalities in Finland. The meetings address current issues related to electricity use, issues like electricity pricing, price trends and product renewals. Additionally, direct feedback about Fortum's operations is collected from those attending the meetings.

During 2009, council attendees provided valuable input also for several of Fortum's development projects. One of the most interesting was the renewal of the pricing model for the Kesto contract.

Customer opinions are monitored also with several country-specific surveys and with the EPSI/SKI customer satisfaction survey conducted annually in Finland and Sweden by an independent agency. In this survey, the development of customer satisfaction in the entire electricity sector is tracked and the results of the main players are compared against those of the entire sector's.

Many new, interesting opportunities on the horizon

Automatic meter management (AMM), smart grids, the small-scale local production of electricity, common Nordic consumer markets and e-billing are examples of the development projects that will change electricity markets in the upcoming years and will give elec-

tricity retailers an opportunity to offer customers completely new kinds of services. For example, hourly-based, real-time electricity consumption metering makes it possible for electricity retailers to develop electricity contracts based on completely new pricing models.

Russia

OAo Fortum's efficiency improvement programme is proceeding according to plan. Technical measures, the introduction of the portfolio management and trading function, and savings in purchasing processes, among other things, have kept OAo Fortum well on track to reach the targeted annual efficiency improvements of EUR 100 million in 2011.

The Russia Division comprises power and heat generation and sales in Russia. The division includes OAo Fortum (formerly TGC-10) and Fortum's approximately 25% holding in TGC-1. At year-end 2009, Fortum's ownership in OAo Fortum was 94.5% including shares owned by OAo Fortum's fully-owned subsidiary. OAo Fortum is fully consolidated from 1 April 2008.

The total installed capacity of OAo Fortum and its affiliates is approximately 2,800* megawatts (MW) electricity and approximately 15,800 MW heat with annual production of 16.0 terawatt-hours (TWh) electricity and 25.6 TWh heat. Heat is produced mainly in combined

heat and power (CHP) plants and additionally with heat boilers. The company owns and operates trunk heat networks in several cities of Russia.

TGC-1 is a territorial generating company operating in north-western Russia from St. Petersburg to the Kola Peninsula. The production capacity of TGC-1 is over 6,200 MW electricity and about 17,200 MW heat. In line with its ongoing investment programme, TGC-1's power generation capacity will be increased by 1,600 MW. Fortum is the company's second largest owner.

In 2009, the Russia Division's comparable operating profit, EUR -26 million, was an improvement of EUR 66 million

over the previous year. The increase is mainly a result from OAo Fortum's efficiency improvement programme and a higher electricity sales margin.

Addressing the crisis challenges

OAo Fortum operates in the Tyumen and Chelyabinsk areas of the Urals and Western Siberia, where power demand growth has stemmed from rapid industry and construction development. However, after the recession hit Russia in late 2008, electricity consumption in the region plummeted. In the Tyumen area, where industrial production is dominated by oil and gas industries, electricity demand in 2009 was at the same level as in 2008.

Key figures

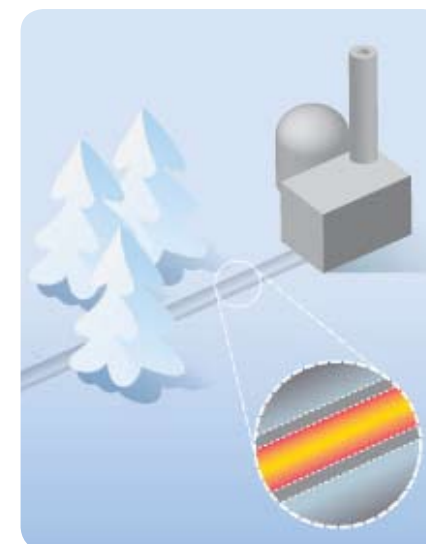
EUR million	2009	2008	Change %
Sales	623	489	27.4
power sales	390	332	17.5
heat sales	219	141	55.3
other sales	14	16	-12.5
Operating profit	-26	-91	71.4
Comparable operating profit	-26	-92	71.7
Net assets (at end of period)	2,248	2,205	2.0
Return on net assets, %	-0.3	-3.7	91.9
Comparable return on net assets, %	-0.3	-3.8	92.1
Gross investments	218	1,748	-87.5
Number of employees, 31 Dec ⁽¹⁾	4,090	7,262	-43.7

⁽¹⁾ In January 2009, around 1,100 persons working in Russia Division were transferred internally to Power Division.

* Excluding OJSC Kurgan Generating Company in Kurgan, Russia, in which Fortum has agreed to sell its shareholding. Fortum expects the transaction to close and the ownership to be transferred during the first half of 2010.

Improving energy efficiency in Chelyabinsk

Fortum and the Chelyabinsk Region Administration have agreed on extensive cooperation in the area of energy efficiency. The largest operation in the programme is the automation and upgrade of the Chelyabinsk district heating system, which will reduce energy losses in the area by over 30% as well as significantly decrease fuel consumption and emissions. A project this size is unique in Russia and will be partly funded by raising the district heating tariffs controlled by the region's administration. Once completed, consumers will be provided with uninterrupted and more affordable supply of district heat.



Demand in the Chelyabinsk area, which is dominated by the metals industry, is showing signs of picking up. The year-on-year increase in the fourth quarter 2009 was approximately 6%, while demand decreased by approximately 12% in the third quarter.

Heat pricing is regulated, set by local authorities within the limits approved at the federal level. Due to the social impact of the economic crisis, local heat tariffs in OAO Fortum's regions of operation were kept at an unsustainably low level.

Under these conditions, OAO Fortum had to take serious measures in order to reduce costs and raise efficiency. In the framework of restructuring operations to align with Fortum's strategy, OAO Fortum discontinued its unprofitable contract with the city of Tyumen regarding the operation of municipal heat networks as of 1 July 2009. Altogether 750 employees were transferred to a new operator in Tyumen. The number of employees in all branches and subsidiaries of OAO Fortum was reduced in total by 2,000 people. This was reached through the centralisation of several functions as well as through optimisation and streamlining of processes.

OAO Fortum's investment programme

OAO Fortum's ongoing investment programme will increase its power capacity from the current 2,800 MW to 5,050 MW. Three projects of the programme will be finished in 2010.

The value for the remaining part of the programme, calculated at year-end 2009 exchange rates, is estimated to be EUR 1.8 billion from January 2010 onwards.

The Russian Government is currently reviewing the investment programmes of the generating companies in light of the decreased power demand. Fortum has confirmed its commitment to fulfil OAO Fortum's investment programme. However, the potential postponement of some projects by 1-3 years is currently under review with a favourable outlook.

➔ *Read more on page 33.*

Focus on Environmental, Health and Safety performance

OAO Fortum is targeting to raise its Environmental, Health and Safety (EHS) performance closer to the level of Fortum's European plants. In 2009, a new EHS organisation was created in OAO Fortum. Its task is for OAO Fortum to become ISO 14001 certified by 2012.

In the area of technical development, the efficiency improvements in district heating have been highly prioritised due to the enormous potential for energy savings and decreased emissions. The actions to reduce the employees' exposure to asbestos have been started and there is a plan to remove or encapsulate all asbestos by the end of 2015 in order to stop all exposure to asbestos dust. Another focus area is the reduction of flue gas emissions, particles and sulphur dioxide.

In 2009, an ambitious occupational

health and safety programme was launched at OAO Fortum covering all plants and personnel. The target of the programme is to adopt the Fortum way of working regarding safety by 2012. Over the year, all OAO Fortum employees were provided with the necessary protective equipment and new work clothes fulfilling Fortum's safety standards. Development of regular EHS reporting based on the Fortum model was started. Furthermore, an extensive training programme was developed and will cover all employees.

Power sector reform proceeded

One of the key assumptions in the OAO Fortum acquisition was the continuation of the Russian power sector reform. As originally announced, the share of power sold at a competitive price was increased from 30% to 50% on 1 July 2009 and from 50% to 60% at the beginning of 2010. The share is to be increased from 60% to 80% at the beginning of July 2010 and the wholesale power market is expected to be fully liberalised by 2011.

The rules for the long-term capacity market are currently under consideration by the Russian government and a decision is expected before the end of the year 2010.

OAO Fortum will continue to be a key focus area

In Russia, Fortum will continue to concentrate its efforts on the develop-

ment of OAO Fortum and bringing the level of the local production facilities closer to the level of Fortum's Nordic assets. Fortum is confident that its expertise will help to increase the energy and environmental efficiency of the Russian power plants and district heating.

The acquisition of OAO Fortum established a platform for growth in the fourth largest energy market in the world. Fortum confirms its commitment for the long-term operations in Russia as an industrial strategic investor.

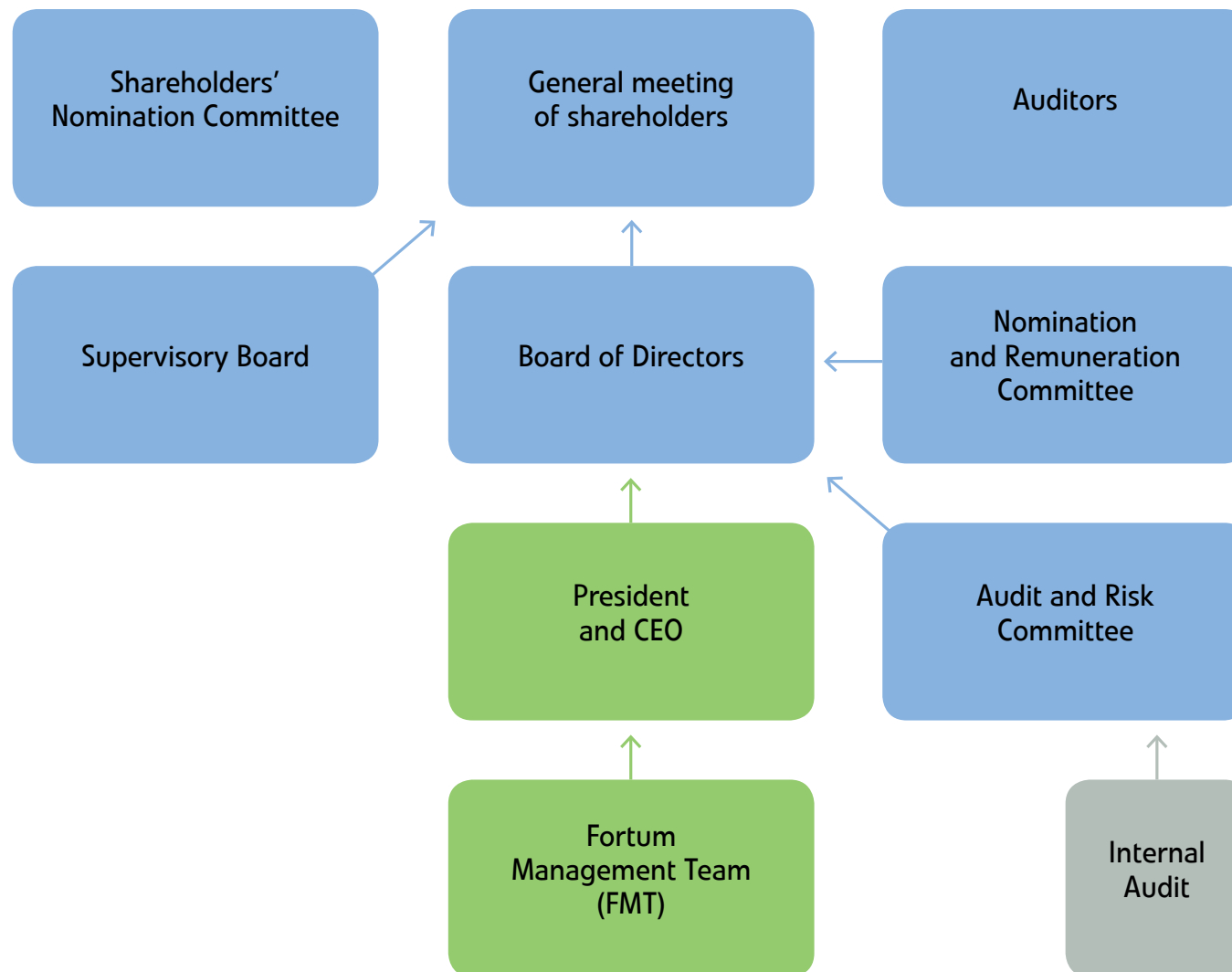
AVERAGE DIRECTOR ATTENDANCE AT ALL FORTUM BOARD MEETINGS WAS **95%**

Well-defined and transparent corporate governance provides a structure for responsible, value-oriented performance and supervisory functions of the company. It is an imperative that works for the benefit of Fortum's shareholders, financial markets, business partners, employees and the public. Corporate governance aims to protect shareholder rights, enhance disclosure and transparency, facilitate effective functioning of the Board and provide an efficient legal and regulatory enforcement framework.

CHAPTER 6 CORPORATE GOVERNANCE

The Board of Directors' as well as the President and CEO's responsibility for the administration and management of the company is regulated in the Finnish Companies Act, which is supplemented by the Finnish Corporate Governance Code. In the following, you will find Fortum's Corporate Governance Statement, as recommended in the Corporate Governance Code, as well as information on management remuneration, followed by the biographical presentations.

⊕ Insider administration at Fortum is presented on the web at www.fortum.com/insider_administration



Corporate Governance Statement

Corporate governance at Fortum is based on the laws of Finland, the company's Articles of Association and the Finnish Corporate Governance Code which was published in 2008. This Corporate Governance Statement has been prepared pursuant to Recommendation 51 of the Code and Chapter 2, Section 6 of the Securities Markets Act. The Corporate Governance Statement is issued separately from the company's operating and financial review.

Fortum complies with the rules of NASDAQ OMX Helsinki Ltd, where it is listed, and the rules and regulations of the Finnish Financial Supervisory Authority. Fortum's headquarters is located in Espoo, Finland.

The company complies with the Finnish Corporate Governance Code with the exceptions that Ilona Ervasti-Vaintola, a member of the Audit and Risk Committee, has become non-independent from the company during the autumn 2009 (interlocking control relationship) and Fortum's Board of Directors' Nomination and Remuneration Committee is not involved in the nomination process of members to the Board of Directors.

For this, the Annual General Meeting has established a Shareholders' Nomination Committee.

🔗 The Corporate Governance Code is available on the website of the Securities Markets Association (www.cgfinland.fi).

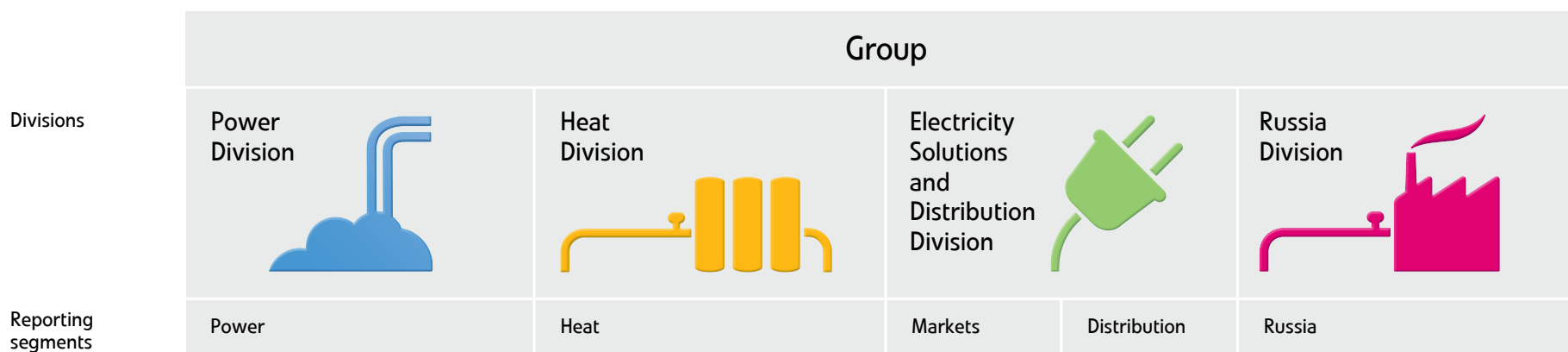
Fortum prepares consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the Securities Markets Act as well as the appropriate Financial Supervision Authority's standards and NASDAQ OMX Helsinki Ltd's rules. The company's operating and financial review report and parent company financial statements are prepared in accordance with the Finnish

Accounting Act and the opinions and guidelines of the Finnish Accounting Board. The auditor's report covers the operating and financial review report, consolidated financial statements and the parent company financial statements.

Organisation of the group

The decision-making bodies managing and overseeing the group's administration and operations are the Annual General Meeting of Shareholders, the Supervisory Board, the Board of Directors with its two Committees and the President and Chief Executive Officer (CEO) assisted by the Fortum Management Team. The Board of Directors super-

Fortum's financial reporting structure



vises the performance of the company, its management and organisation. The Supervisory Board, the Board of Directors and the Fortum Management Team are separate bodies, and no person serves as a member of more than one of them.

Day-to-day operational responsibility at the group level rests with the President and CEO assisted by the Fortum Management Team, and at division level with each division head assisted by a management team.

General Meeting of Shareholders

The right of shareholders to make decisions over company matters is exercised at an appropriately convened General Meeting of Shareholders by those shareholders present, or by their authorised representatives. In accordance with the Articles of Association and Finnish Corporate Governance Code, a notice to convene the General Meeting of Shareholders is issued by the Board of Directors. The notice is delivered no more than two months and no less than 21 days before the General Meeting of Shareholders by publishing the notice in two newspapers chosen by the Board of Directors.

The Annual General Meeting is held once a year, at the latest in June. An Extraordinary General Meeting of Shareholders shall be held whenever the Board of Directors or Supervisory Board finds cause for such a meeting or when provisions of the law rule that such a meeting must be held.

Shareholders' Nomination Committee

By decision of Fortum's Annual General Meeting 2009, a Shareholders' Nomination Committee was appointed to prepare proposals concerning Board members and their remuneration for the following Annual General Meeting. The Committee consists of the representatives of the three largest shareholders and, in addition, two expert members: the Chairman of the Board of Directors and one other representative, who is elected by the Board of Directors among its members and who is independent of the significant shareholders. The three shareholders, whose share of the total votes of all shares in the company were the largest as of 2 November 2009 were entitled to appoint the members representing the shareholders on the Committee. Should a shareholder not have wished to use its right to nominate, this right would have been passed on to the next biggest shareholder. The largest shareholders were determined on the basis of the ownership information registered in the book-entry system.

In November 2009, the following persons were appointed to Fortum's Shareholders' Nomination Committee: Pekka Timonen, Director General, Prime Minister's Office, Ownership Steering Department, Harri Sailas, CEO, Ilmarinen Mutual Pension Insurance Company and Jorma Huuhtanen, Director General, Social Insurance Institution. Matti Lehti, the Chairman of Fortum's Board of Direc-

tors, served as the Committee's expert member. In addition, Sari Baldauf, Deputy Chairman of Fortum's Board of Directors, has been nominated by the Board as an expert member to the Committee.

In its meeting on 1 February 2010, the Shareholders' Nomination Committee decided to propose to the Annual General Meeting, which is scheduled to be held 25 March 2010, that the following persons be elected to the Board of Directors: Matti Lehti as chairman, Sari Baldauf as deputy chairman, and as members Esko Aho, Ilona Ervasti-Vaintola, Birgitta Johansson-Hedberg, Christian Ramm-Schmidt and Joshua Larson.

Supervisory Board

The Supervisory Board is responsible for overseeing that the shareholders' interests are safeguarded.

The members of the Supervisory Board, its Chairman and Deputy Chairman are elected at the Annual General Meeting for a one-year term of office. A person who has reached the age of 68 years may not be elected as a member of the Supervisory Board. The Supervisory Board comprises a minimum of six and a maximum of 12 members; in February 2010 there were 11 members. The Supervisory Board meetings are also attended by three employee representatives who are not members of the Supervisory Board. More than half of the Supervisory Board's members must be present to constitute a quorum. In 2009, the

The duties of the Annual General Meeting are, among other things, to:

- ▶ Adopt the financial statements and the consolidated financial statements
- ▶ Decide on the treatment of the distributable funds
- ▶ Elect the members of the Supervisory Board and the Board of Directors
- ▶ Decide on the discharge from liability for the Supervisory Board, the Board of Directors and the President and CEO
- ▶ Decide on the remuneration of the Supervisory Board, the Board of Directors and the remuneration for the auditor
- ▶ Elect the auditor.

The main tasks of the Supervisory Board are to:

- ▶ Oversee the company's administration by the Board of Directors
- ▶ Submit its statement on the financial statements and the auditor's report to the Annual General Meeting
- ▶ Discuss proposals by the Board of Directors in matters concerning a substantial reduction or expansion of company's operation or an essential change to company's organisation.

Supervisory Board met 5 times. Average attendance at these meetings was 83.5%.

The employee representatives on Fortum's Supervisory Board were Jouni Koskinen, Tapio Lamminen (replaced by Kari Ylikauppila as of 1 September 2009) and Sebastian Elg. The current employee representatives' term continues until the end of 2010.

Board of Directors

The Board of Directors is responsible for the administration of the Group and for ensuring that the business complies with the relevant laws and regulations, including the Finnish Companies Act, Fortum's Articles of Association, the

instructions given by the General Meeting of Shareholders and the guidelines issued by the Supervisory Board. The responsibilities of the Board of Directors are outlined in the Board of Directors' working order. The Board of Directors comprises five to eight members who are elected at the Annual General Meeting for a one-year term of office, which expires at the end of the first Annual General Meeting following the election. More than half of the members must be present to constitute a quorum. A person who has reached the age of 68 cannot be elected to the Board of Directors.

In 2009, the Board of Directors met 11 times, of which 2 were teleconfer-

ences. Average Director attendance at all Board meetings was 95.4%. In addition to steering and supervising the company's operational and financial development, the main items during the year were Fortum's strategy, financial position as well as risks and financial reporting. Main items also included the appointment of the new President and CEO, the new operational organisation, the Loviisa 3 application and other nuclear power matters, OAO Fortum integration in Russia and investments in new power and heat business as well as divestment matters. Over the year, the Board closely followed the development of the electricity market in the Nordic countries, Europe and

Russia as well as the implementation of the new operational organisation for Fortum group. The Board also continued to address issues relating to sustainable business development and management performance and remuneration.

The members of the Board of Directors are all, with the exception of Ilona Ervasti-Vaintola (dependent on the company), independent of the company and its significant shareholders. The President and CEO, the Chief Financial Officer and the General Counsel (being the secretary to the Board) attend Board meetings. Other Fortum Management Team members attend as required to provide information to the Board or

At the 2009 Annual General Meeting, the following persons were elected to the Supervisory Board for a one-year term of office:

Name	Born	Education	Occupation
Chairman Markku Laukkanen	1950	MSc (Soc. Sc.)	Member of Parliament
Deputy Chairman Sanna Perkiö	1962	PhD (Tech.)	Member of Parliament
Martti Alakoski	1953		Union Chairman
Tarja Filatov	1963		Member of Parliament
Sampsa Kataja	1972	LL. M	Member of Parliament
Kimmo Kiljunen	1951	PhD (Pol.Sc)	Member of Parliament
Katri Komi	1968	MSc (Agriculture and Forestry)	Member of Parliament
Panu Laturi	1972	MSc (Pol.Sc)	Secretary General, Green League of Finland
Juha Mieto	1949		Member of Parliament
Jukka Mäkelä	1960	MSc (Eng)	Member of Parliament
Helena Pesola	1947	MSc (Soc.Sc)	Director, KELA

At the 2009 Annual General Meeting, the following six persons were elected to the Board of Directors:

Name	Born	Education	Occupation
Chairman Matti Lehti	1947	PhD (Econ.)	Non-executive director
Deputy Chairman Sari Baldauf	1955	MSc (Econ.)	Non-executive director
Esko Aho	1954	MSc (Pol. Sc.)	Executive Vice President, Corporate Relations and Responsibility, Nokia Corporation
Ilona Ervasti-Vaintola	1951	LL. M, Trained on the bench Bachelor of Art, Master of Psychology	Group Chief Counsel, Principal Attorney, Secretary of the Board of Directors of Sampo Plc, Member of the Group Executive Committee
Birgitta Johansson-Hedberg	1947		Non-executive director
Christian Ramm-Schmidt	1946	B. Sc (Econ.)	Senior Partner of Merasco Capital Ltd.

The main tasks of the Board of Directors:

- ▶ Strategic development and steering of the company's business and fields of activity
- ▶ Ensuring that the business complies with the relevant rules and regulation, the company's Articles of Association and guidelines given by the Supervisory Board
- ▶ Defining the dividend policy
- ▶ Ensuring that the accounting and financial administration are arranged appropriately
- ▶ Appointing the top management
- ▶ Reviewing the central risks and instructing the President and CEO concerning the risks
- ▶ Confirming the annual business plan
- ▶ Approving interim reports, consolidated financial statements, and operating and financial review and parent company financial statements
- ▶ Taking care of the duties of the company's Board of Directors specified in the Companies Act and in the Articles of Association
- ▶ Deciding on major investments, divestments and business arrangements
- ▶ Electing members to the Board Committees.

Assessment of the Board of Directors' work:

- ▶ Annual self-assessment.

Procedures of Board meetings:

- ▶ The Board convenes according to a previously agreed schedule to discuss specified themes and other issues whenever considered necessary
- ▶ The Chairman decides on the agenda based on proposals by the other members of the Board, the President and CEO, and the secretary to the Board
- ▶ The Chairman shall convene a meeting to deal with a specific item, if requested by a member of the Board or the President and CEO
- ▶ The Board deals with the reports of the Board committees and the President and CEO
- ▶ Materials shall be delivered to the members five days before meetings.

upon invitation by the Board.

The Chairman of the Board, together with the President and CEO, prepares the items for discussion and to be decided upon at the Board of Directors' meetings.

The Board of Director's working order

The Board of Directors has approved a working order to govern its work. The main contents of the working order are presented in the table to the left.

Assessment of the Board of Directors

The Board of Directors conducts an annual self-assessment in order to further develop the work of the Board. The assessment process analyses the efficiency of the work, the size and composition of the Board, the preparation of the agenda, and the level and openness of discussions, as well as the members' ability to contribute to an independent judgement.

The Board Committees

The Board of Directors has appointed an Audit and Risk Committee as well as a Nomination and Remuneration Committee, both with three members. The members of these committees are all members of the Board of Directors. Members are appointed for a one-year term of office, which expires at the end of the first Annual General Meeting following the election. All the members of the Board of Directors have the right

to participate in the committee meetings. The secretary to the Board of Directors acts as the secretary to the committees. The Board has approved written charters for the committees. The main contents of these rules are outlined on the next page.

The Audit and Risk Committee

The Audit and Risk Committee assists the Board of Directors in fulfilling its supervisory responsibilities in accordance with the tasks specified for audit committees in the Finnish Corporate Governance Code.

The Audit and Risk Committee annually reviews its charter, approves the internal audit charter and the internal audit plan and carries out a self-assessment of its work. Furthermore, the Committee meets the external auditors regularly to discuss the audit plan, audit reports and audit findings.

The Audit and Risk Committee reports on its work to the Board of Directors regularly after each meeting.

After the Annual General Meeting in April 2009, the Board elected among itself Birgitta Johansson-Hedberg as the chairman and as members Ilona Ervasti-Vaintola and Christian Ramm-Schmidt to the Audit and Risk Committee.

The Committee met 5 times in 2009. Average Director attendance at all meetings was 93.3%. Also regularly participating in the Committee's meetings were external auditors, Chief Financial Officer (CFO), Head of Internal Audit, Corpo-

The tasks in the Charter of Audit and Risk Committee include:

- ▶ Monitoring the reporting process of financial statements
- ▶ Supervising the financial reporting process
- ▶ Monitoring the efficiency of the company's internal control, internal audit, if applicable, and risk management systems
- ▶ Reviewing the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which is included in the company's corporate governance statement
- ▶ Monitoring the statutory audit of the financial statements and consolidated financial statements
- ▶ Evaluating the independence of the statutory auditor or audit firm, particularly the provision of related services to the company to be audited
- ▶ Preparing through the Board a proposal for resolution on the election of the auditor for the shareholders' consideration at the Annual General Meeting
- ▶ Reviewing the corporate governance statement
- ▶ Monitoring the financial position of the company
- ▶ Approving the operating instructions for internal audit
- ▶ Reviewing the plans and reports of the internal audit function

- ▶ Being in contact with the auditor and reviewing the reports that the auditor prepares for the Committee.

The tasks in the Charter of Nomination and Remuneration Committee include:

- ▶ Discussing, assessing and giving proposals on the Group's, and its management's, pay structures and bonus and incentive systems
- ▶ Monitoring the functioning of the bonus systems to ensure that the management's bonus systems will advance the achievement of the company's objectives and are based on personal performance
- ▶ Preparing nomination issues and proposals to the Board, as far as nomination questions are concerned, concerning the President and CEO and the management directly reporting to the President and CEO
- ▶ Evaluating the performance of the President and CEO and executives reporting directly to the President and CEO.

rate Controller and General Counsel as the Secretary to the Committee as well as other parties invited by the Committee.

The main items during the year included reviewing the interim reports, the financial statements, internal audit and risk management reports and policies as well as the corporate governance statement, monitoring of certain important projects, such as the integration of OAO Fortum in Russia, preparing a recommendation for the election of the external auditor, as well as regulatory compliance and development of internal controls.

The Nomination and Remuneration Committee

After the Annual General Meeting in April 2009, the board elected among itself Matti Lehti as the chairman and as members Esko Aho and Sari Baldauf to the Nomination and Remuneration Committee. The Committee met 6 times during 2009. Director attendance at all meetings was 94.4%. Other regular participants at the Committee meetings were the President and CEO, Senior Vice President, Corporate Human Resources, and General Counsel as the secretary to the Committee.

The Nomination and Remuneration Committee reports on its work to the Board of Directors regularly after each meeting.

The main items during the year included the appointment of the Presi-

dent and CEO, new operational organisation for Fortum group as well as top management performance evaluations and compensation issues, including performance target-setting for the Fortum Management Team.

President and CEO

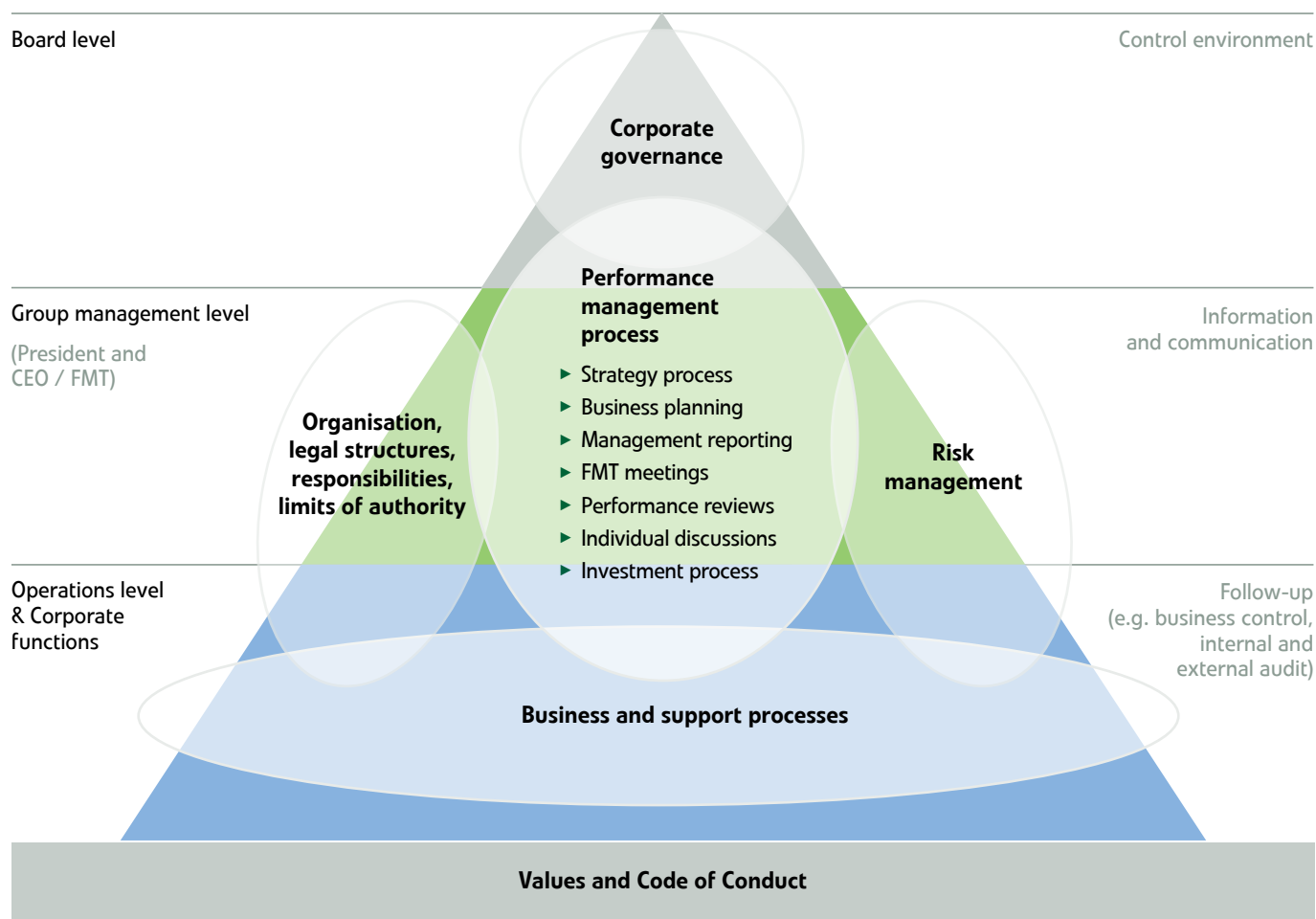
The role of the President and CEO is to manage the Group's business and administration in accordance with the Finnish Companies Act and related legislation and the instructions from the Board of Directors. MSc (Eng), MSc (Econ) Tapio Kuula, (born 1957) has acted as the President and CEO since May 2009.

The President and CEO is supported by the Fortum Management Team. The performance of the President and CEO is evaluated annually by the Board of Directors. The evaluation is based on objective criteria that include the performance of the company and the achievement of goals previously set for the President and CEO by the Board's Nomination and Remuneration Committee.

Fortum Management Team and operational organisation

The Fortum Management Team currently consists of nine members, including the President and CEO to whom the members of the Management Team report. The General Counsel acts as the Secretary to the Management Team. The Management Team meets regularly on a monthly basis. In addition, there are meetings dealing

Fortum's internal control framework



with strategy and business planning, as well as performance reviews and people issues such as management reviews.

The Fortum Management Team sets the strategic targets, prepares the Group's annual business plans, follows up on the results, plans and decides on investments, mergers, acquisitions and divestments within authorisation. Each member of the Management Team is responsible for the key day-to-day operations and the implementation of operational decisions in their respective organisations.

Fortum reorganised its business structure around four divisions and four staff functions in order to increase the organisation's efficiency, performance accountability and simplicity. The change entered into force on 1 October 2009.

The new divisions are Power, Heat, Russia, and Electricity Solutions and Distribution. Power Division consists of Fortum's power generation, physical operation and trading, operation, maintenance and development of power plants as well as expert services for power producers. Heat Division consists of combined heat and power generation, district heating activities and business to business heating solutions. Electricity Solutions and Distribution Division is responsible for Fortum's electricity sales, solutions and distribution activities. The division consists of two business areas: Distribution and Markets. Russia Division consists of power and heat generation and sales in Russia. It includes OAO Fortum

and Fortum's over 25% holding in TGC-1.

The staff functions are Finance, Corporate Relations and Sustainability, Corporate Human Resources, Corporate Strategy and R&D.

Internal audit

Fortum's Corporate Internal Audit is responsible for assessing and assuring the adequacy and effectiveness of internal controls in the company. Furthermore, it evaluates the effectiveness and efficiency of various business processes, the adequacy of risk management, and e.g. compliance with laws, regulations and internal instructions.

The Standards for the Professional Practice of Internal Audit form the basis for its work.

Corporate Internal Audit is independent of the divisions and other units at Fortum. It reports to the Audit and Risk Committee of the Board of Directors and administratively to the CFO. The purpose, authority and responsibility of Corporate Internal Audit is formally defined in its charter. The charter and the annual audit plan are approved by the Audit and Risk Committee.

External audit

The company has one auditor, which shall be an audit firm certified by the Central Chamber of Commerce. The auditor is elected by the Annual General Meeting for a term of office that expires at the end of the first Annual General

Meeting following the election.

Fortum Corporation's Annual General Meeting on 7 April 2009 elected Authorised Public Accountant Deloitte & Touche Oy as auditor, with Authorised Public Accountant Mikael Paul having the principal responsibility.

Internal control and risk management systems pertaining to financial reporting

System of risk management and internal controls

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

The Fortum risk management process is also embedded in the internal control framework, and the process level internal control structure has been created by using a risk-based approach. The same approach is also used for the financial reporting process. Fortum's internal control framework includes main elements from the framework introduced by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

➤ Read more about Fortum's risk management process and largest risks on pages 98–102 and 126–134.

Control environment

Fortum has an internal control framework supporting the execution of the strategy and ensuring regulatory compliance. The values and Code of Conduct set the foundation for the internal control framework. The framework consists of group-level structures, corporate-level processes as well as business and support process-level controls. The Audit and Risk Committee, appointed by the Board of Directors, has oversight over risk management within the Group. Corporate Risk Management, an independent function headed by the Chief Risk Officer, in CFO's Office is responsible for reporting risk exposures on weekly and monthly basis to the CFO and the President and CEO and regularly to the Audit and Risk Committee and maintaining the company's risk management framework. In the financial reporting process, the ownership of the overall control structure is in the Corporate Accounting and Control unit headed by the Corporate Controller as part of the CFO's office.

Risk assessment

As part of the Fortum risk management process, also risks related to financial reporting are identified and analysed annually. Additionally, all new risks are analysed and repaired as they have been identified. The control risk assessment has been the basis for creating the process-level internal control framework and the same applies to the control

points to prevent errors in the financial reporting process. The results of the control risk assessment and the process-level controls have been reported to the Audit and Risk Committee. The control framework has not been changed during 2009 but the implementation responsibilities are looked as part of the reorganisation.

Control activities

Fortum's organisation is still decentralised and a substantial degree of authority and responsibility has been delegated to the divisions in form of control responsibilities even though some areas like commodity market risk control has been more centralised in the new organisation. Each division has its own staff and other resources. Control activities are applied in the business processes and, from a financial reporting perspective, they ensure that potential errors or deviations are prevented, discovered and corrected. The Fortum policy structure ensures that governance around all activities exists.

In financial reporting, the Controller's manual sets the standards. The Corporate Accounting and Control unit defines the design of the control points, and internal controls cover the end-to-end financial reporting process. However, the part of the organisation responsible for performing the controls is also responsible for the effectiveness of the controls. There are transaction process-

level controls and periodic controls. These periodic controls are linked to the monthly and annual reporting process and include reconciliations and analytical reviews to ensure the correctness of financial reporting.

Information and communication

The Controller's manual including Accounting manuals, Investment manual and reporting instructions as well as policies are stored on intranet sites accessible by all people involved in the financial reporting process. Additionally, Corporate Accounting and Control and Risk Management functions regularly arrange meetings in which informa-

tion around the processes and practices is shared to ensure uniform application of the processes. Investor Relations and Corporate Communications together with Corporate Control maintain the instructions for releasing financial information.

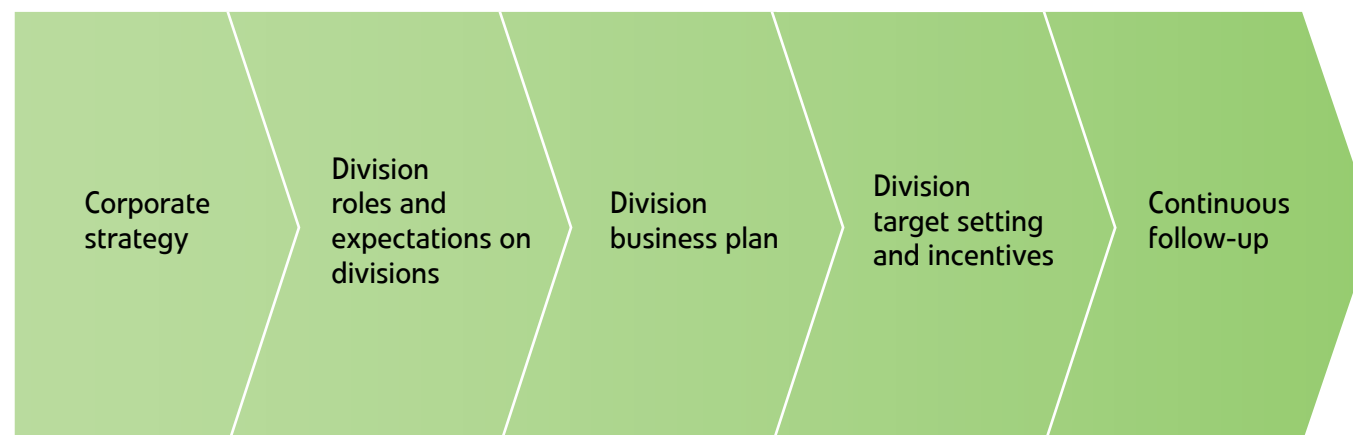
Follow-up

Financial results are followed up in the monthly reporting. In addition to that, the quarterly Performance Review meetings with Group and division management are embedded in the Fortum Performance Management process to review the financial performance and ultimately reviewed by the Audit and Risk Committee and Board of Directors.

The Performance Reviews have a monitoring role also in ensuring that the internal controls are functioning. As part of the Fortum internal control framework, all divisions are accountable for assessing the effectiveness of the controls they are responsible for. For the financial reporting process, division- and corporate-level controller teams are responsible for this assessment. In addition, Internal Audit performs audits of the financial reporting process.

The actual control maturities are followed up in form of self-assessment process and for some areas a cross-testing of controls have been introduced during 2009.

Fortum performance management process



Remuneration

The Finnish Corporate Governance Code 2008 requires that Fortum Corporation issues a salary and remuneration report of the company. Furthermore, in September 2009, the Cabinet Committee on Economic Policy, representing the State owner, issued guidelines on management remuneration and pension benefits in companies with State ownership. Fortum takes into account both the Code and the guidelines in its remuneration.

Remuneration at Fortum is determined according to Fortum Group's Remuneration Policy and Fortum's Global Compensation and Benefit Policy. Remuneration is aligned with the company's financial performance and external market data, observing remuneration levels for similar positions among peer companies and approved by the Board of Directors. Compensation for the members of the Supervisory Board and the Board of Directors is decided by the Annual General Meeting of Fortum Corporation.

Fortum offers a competitive compensation package for senior executives and other management, in order to attract and retain key resources in all Fortum

countries. The package offers employees competitive base salaries, purposeful benefits and challenging short-term incentives (STI) and long-term incentive (LTI) programs.

Short-Term Incentives (STI)

Fortum's short-term incentive system is an annual bonus system that exists to support the Group's values, the achievement of financial targets and structural changes, and to secure an alignment between the performance targets of the individual employee and the targets of the Group and division. All Fortum employees are covered by the annual bonus system except for some employee groups in

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

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

In 2009, the STIs paid to the Fortum Management Team (FMT), including the current as well as the former President and CEO, amounted to EUR 951,599, which is 0.27% of the total salaries and remuneration paid in the Fortum Group.

Remuneration paid during 2009

EUR thousands	The President and CEO May 1 – Dec 31	The President and CEO Full year 2009	Other FMT members Oct 1 – Dec 31	Other FMT members Jan 1 – Sep 30
Salaries and fringe benefits	604	745	805	1,114
Performance bonuses ¹⁾	-	134	-	605
Total	604	879	805	1,719

Additionally, the President and CEO had a calculatory gross income of EUR 275,163 based on February 2009 share delivery from the LTI plan 2003-2008. The corresponding aggregated figure for the other members of the Fortum Management Team in office at the time of payment (excluding the current and the former CEOs) was EUR 929,114. These shares were granted in spring 2006 after the earning period with the value not exceeding participants' one year salary and were delivered after the three-year lock-up period.

¹⁾ Performance bonuses for 2008 were paid in spring 2009.

Remuneration of the President and CEO

The remuneration as well as the principle terms and conditions of President

and CEO Tapio Kuula's employment are presented in the table below.

The former President and CEO Mikael Lilius has been paid his base salary until his retirement on 31.12.2009. In 2009, Fortum paid Mikael Lilius EUR 864,783 salaries and fringe benefits and EUR 346,729 performance bonus relating to the year 2008. Additionally, he had a calculatory gross income of EUR 725,504 based on February 2009 share delivery from the LTI plan 2003–2008.

Mikael Lilius is entitled to the annual bonus (STI) from the year 2009. The bonus is based solely on the financial performance of the company. In accordance with the terms and conditions of For-

tum's LTI arrangement, the value of the earned LTI bonus and granted share participations is limited to the amount of the former President and CEO's December 2009 monthly remuneration multiplied by twelve.

Both STI and LTI bonus payments will be done during first quarter 2010.

Long-Term Incentives (LTI)

Fortum's Management Performance Share (LTI) Arrangement is a performance-based, long-term incentive arrangement. It was launched in 2003 to support the achievement of the Group's long-term goals by attracting and retaining key personnel.

Purpose and General Structure of the LTI Arrangements

The purpose of an LTI arrangement is to function as share-related incentive schemes for the top management of the company as well as to offer the participants with the opportunity to share in the company's future success. The company expects that it will benefit from the interest which the participants will have in the company's success through equity participation.

Fortum's LTI arrangement is continuing incentive schemes, divided into annual performance share plans, within which the participants have the opportunity to earn shares of the company

as a long-term incentive. A new plan commences annually upon decision by the Board.

In Fortum's LTI Arrangement, each plan begins with a three calendar year period, during which the participants may earn rights for the shares subject to achieving the earnings criteria set by the Board. After the earning period and after deduction for applicable tax and other employment related expenses from the gross value of the earned rights for shares, the participants are delivered the net balance of the earned rights in the form of so-called performance shares. The earning period is followed by a subsequent lock-up period during which

Employment terms and conditions of the President and CEO Tapio Kuula

Salary and fringe benefits	Base salary EUR 70,000/month. Additionally, free car benefit and mobile phone benefit as fringe benefits.
Short-term incentive (annual bonus)	The annual bonus can be earned according to the criteria approved by the Board of Directors. Maximum level 40% of annual salary + fringe benefits. Annual salary = 12 x salary of December of the year in question.
Long-term incentive	According to Fortum's current Management Performance Share Arrangement (LTI). The maximum value of shares delivered (before taxation) cannot exceed annual salary.
Pension	Retirement age 63. The President and CEO has a defined contribution pension plan. Its annual contribution is 25% of the annual salary. The annual salary consists of a base salary, fringe benefits and short-term incentives (annual bonus). In case the assignment is terminated before retirement age, the person is entitled to retain the benefits accrued in the Pension Plan for his benefit.
Termination of Assignment	Notice period on both parties 6 months. Severance pay (if the company terminates the agreement) = 6 months' notice period compensation + severance pay corresponding to the last monthly salary x 18

Table showing the earning and lock-up periods

Plan	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
03–08	1	2	3	4	5	6							
04–09		1	2	3	4	5	6						
05–10			1	2	3	4	5	6					
06–11				1	2	3	4	5	6				
07–12					1	2	3	4	5	6			
08–12						1	2	3	4	5			
09–13							1	2	3	4	5		
10–15								1	2	3	4	5	6

 Earning period
 Lock-up period

the participants shall not be entitled to transfer or dispose of the performance shares. The decrease or increase in the value of the performance shares during the lock-up period is at the risk or for the benefit of the participants. Following the Cabinet Committee's Economic Policy for State-owned corporations, issued in September 2009, the maximum value of shares (before taxation) to be delivered to a participant after the earning period cannot exceed the participant's one-year salary.

Following the Cabinet Committee's Economic Policy for State-owned corporations the length of the lock-up period for newly issued plans will be extended

in 2010 from two to three years, and the aggregate duration of each individual plan from five to six years.

Selection and exclusion of the participants to LTI Arrangement

The members of Fortum's top management, who are entitled to participate in LTI Arrangement, are selected by the Board of Directors at its sole discretion. Participants are eligible to participate in such individual plans, in which there has been an earning period ongoing during his/her participation. The Board shall, however, be entitled to exclude individual participants from LTI Arrangement and from any future plans despite the

fact that the excluded participants may already have participated in the arrangement and in individual plans.

To be eligible for participation in a plan, an individual participant may not simultaneously be a member of the Fortum Personnel Fund.

Following recommendations from State Ownership Steering

Fortum's current LTI Arrangement fulfils the recommendations of State-owned companies and the Corporate Governance Code 2008.

Fortum does not have any on-going stock option programs. The subscription periods for the last stock option scheme (2002B) began in October 2006 and ended in May 2009. The members of current Fortum Management Team did not have any remaining stock options in 2009.

For more information about the incentive schemes, please refer to pages 157–160 in the Consolidated financial statements.

Pensions

Fortum's Finnish executives participate in the Finnish TyEL pension system, which provides for a retirement benefit based on years of service and earnings according to the prescribed statutory system. Under the Finnish pension system, base pay, incentives and taxable fringe benefits are included in the definition of earnings, although gains realised from stock options and from the LTI Arrangement are not. Finnish

pension legislation offers a flexible retirement from age 63 to age 68 without full pension limits. For the President and CEO the retirement age is 63 and for the other members of the Fortum Management Team, the retirement age is 60 or 63 and the pension paid can be a maximum of 66% or 60% of the remuneration. In the first case, the pensions are insured and paid by Fortum's pension fund, and in the latter, pensions are insured by an insurance company.

Pension fund in Finland

Fortum has one pension fund in Finland, the Fortum Pension Fund for employees in Finland only, which was closed in 1991. The fund offers certain supplementary pension benefits to people within the sphere of its operations. The most important of these are the overall guaranteed pension of 66% and the reduced retirement age of 60 for women and some men. At the end of 2009, the number of employees covered by the fund was 820 (1,020).

In addition to the persons covered by the pension fund, there are some two hundred other Fortum employees who have various additional pension benefits based on the systems of their previous employers. These benefits are insured by insurance companies. The clear majority of these persons are employees of the former E.ON Finland.

Share rights delivered or to be delivered to the management

Name	Year 2009 ¹⁾	Year 2010 ¹⁾	Year 2011 ²⁾
Tapio Kuula	8,682	8,422	5,661
Mikael Frisk	6,292	6,041	3,759
Timo Karttinen	5,174	5,166	3,272
Juha Laaksonen	7,227	7,014	5,170
Maria Paatero-Kaarnakari	2,643	2,539	1,745
Anne Brunila (from 1 October 2009)	-	-	-
Alexander Chuvaev (from 1 October 2009)	-	-	-
Per Langer (from 1 October 2009)	2,688	2,989	2,518
Matti Ruotsala (from 1 October 2009)	-	-	-
Mikael Lilius (until 30 April 2009)	22,423	-	-
Christian Lundberg (until 30 September 2009)	6,667	-	-
Maria Romantschuk (until 30 September 2009)	-	-	-

¹⁾ Actual numbers of shares delivered

²⁾ Calculative number of share rights, assumed tax deduction based on previous years

Pensions in Sweden

In Sweden, the majority of Fortum's employees are covered by statutory retirement pension benefits and an additional collective agreement-based supplementary pension scheme, ITP (Industrins Tilläggspension) for white-collar workers and SAF/LO (Svenskt Näringsliv/Landsorganisationen) for blue-collar workers. In addition, approximately 240 key persons have opted out a portion of the ITP plan and are members of Birkaplanen, an alternative ITP-based pension scheme. Birkaplanen guarantees a defined pension of the final pensionable salary at the time of retirement and was closed to new entrants in 2003. In 2006, Fortum therefore launched a new, alternative ITP-based pension scheme, ÖVER 10, for key persons earning more than 10 income base amounts. The scheme is contribution-based and offered both to existing and new employees. A limited number of employees in Sweden are also covered by separate pension schemes, due to earlier agreements with former employers.

Fortum Personnel Fund

The Fortum Personnel Fund (for employees in Finland only) has been in operation since 2000. The Board of Directors determines the criteria for the fund's annual profit-sharing bonus. Persons included in the LTI Arrangement are not eligible to be members of this fund. Members of the personnel fund are the permanent

and fixed-term employees of the Group. The membership of employees joining the company starts at the beginning of the next month after the employment relationship has been ongoing for six months. Fund membership terminates when the member has received his/her share of the fund in full.

The profit-sharing received by the fund is distributed equally between the members. Each employee's share is divided into a tied amount and an amount available for withdrawal. It is possible to transfer a maximum of 15% of capital from the tied amount to the amount available for withdrawal each year, once the employee has been a member for five years. The fund's latest financial year ended at 30 April 2009 and the fund then had a total of 3,155 members. At the end of April 2009 Fortum contributed EUR 4.7 million to the personnel fund as an annual profit-sharing bonus based on the financial results of 2008. The combined amount of members' shares in the fund was EUR 20.9 million. The amount available for withdrawal is decided each year and it is paid to members who want to exercise their withdrawal rights.

Compensation for Supervisory Board service

Each Supervisory Board member receives a fixed monthly fee and a meeting fee. The employee representatives receive only a meeting fee. All members are

entitled to travel expense compensation in accordance with the company's travel policy. Members of the Supervisory Board are not offered any LTI Arrangement, or participation in other incentive schemes, nor do they have a pension plan at Fortum.

The Annual General Meeting has confirmed the following remuneration for Supervisory Board service:

EUR/month	2009	2008
Chairman	1,000	1,000
Deputy Chairman	600	600
Members	500	500
Meeting fee	200	200

Total compensation for Supervisory Board paid by Fortum

EUR, total compensation	2009	2008
Chairman	13,000	14,000
Deputy Chairman	8,200	8,000
Other members	59,425	54,423

Compensation for Board service

Each Board member receives a fixed monthly fee and a meeting fee. The meeting fee is also paid for committee meetings and is paid in double to a member who lives outside Finland in Europe. The members are entitled to travel expense compensation in accordance with the company's travel policy.

Board members are not offered any LTI Arrangement, or participation in other incentive schemes, nor do they

have a pension plan at Fortum.

The Annual General Meeting has confirmed the following compensation for Board service:

EUR	2009	2008
Chairman	66,000	66,000
Deputy Chairman	49,200	49,200
Members	35,400	35,400
Meeting fee	600	600

Total compensation for Board of Directors paid by Fortum

EUR	2009	2008
Chairman	75,275	70,250
Deputy Chairman	58,200	54,259
Other members of the Board	195,588	220,850

Board of Directors (31 December 2009)



Matti Lehti

- Chairman, born 1947, PhD (Econ)
- Chairman of the Nomination and Remuneration Committee

Main occupation:

- Non-executive Director

Primary work experience:

- Chancellor of the Helsinki School of Economics
- President and CEO and Chairman of the Board, TietoEnator Corporation, Tietotehdas Oy and TietoGroup
- Deputy Managing Director, Rautakirja Oy

Key positions of trust:

- Chairman of the Foundation for Economic Education
- Vice Chairman of the Helsinki School of Economics Foundation

Independent member of Fortum's Board of Directors since 2005.

Fortum shareholding on 31 Dec. 2009: 2,000
(31 Dec. 2008: 0)



Sari Baldauf

- Deputy Chairman, born 1955, MSc, Business Administration
- Member of the Nomination and Remuneration Committee

Main occupation:

- Non-executive Director

Primary work experience:

- Nokia Corporation, several senior executive positions. Member of the Group Executive Board.

Key positions of trust:

- Member of the Board of CapMan Plc, F-Secure Corporation, Daimler AG and Hewlett-Packard Company
- Member of the Board of Finnish Business and Policy Forum EVA and Finland's Children and Youth Foundation
- Chairman of Savonlinna Opera Festival

Independent member of Fortum's Board of Directors since 2009.

Fortum shareholding on 31 Dec. 2009: 2,300



Esko Aho

- Born 1954, Master of Political Sciences
- Member of the Nomination and Remuneration Committee

Main occupation:

- Executive Vice President, Corporate Relations and Responsibility, Nokia Corporation. Member of the Group Executive Board.

Primary work experience:

- President of Sitra, the Finnish Innovation Fund
- Prime Minister of Finland
- Member of Parliament
- Leader of the Centre Party
- Lecturer at Harvard

Key positions of trust:

- Vice Chairman of the Board, Technology Industries of Finland
- Member of the Board Directors of Russian Venture Company

Independent member of Fortum's Board of Directors since 2006.

Fortum shareholding on 31 Dec. 2009: 0
(31 Dec. 2008: 0)



Ilona Ervasti-Vaintola

- Born 1951, LL.M., Trained on the bench
- Member of the Audit and Risk Committee

Main occupation:

- Group Chief Counsel, Principal Attorney, Secretary of the Board of Directors of Sampo plc. Member of the Group Executive Committee.

Primary work experience:

- Chief Counsel and member of the Board, Mandatum Bank plc
- Director, Partner, Mandatum & Co Ltd
- Head of Financial Law Department, Legal counsel of Union Bank of Finland Ltd

Key positions of trust:

- Member of the Board of Fiskars Corporation and Finnish Literature Society
- Chairman of Legal Committee at the Central Chamber of Commerce of Finland

Non-independent from the company (interlocking control relationship) and independent of significant shareholders. Member of Fortum's Board of Directors since 2008.

Fortum shareholding on 31 Dec. 2009: 4,000
(31 Dec. 2008: 4,000)



Birgitta Johansson-Hedberg

- Born 1947, Bachelor of Art, Master of Psychology
- Chairman of the Audit and Risk Committee

Main occupation:

- Non-executive Director

Primary work experience:

- President and CEO of Lantmännen
- President and CEO of Foreningssparbanken
- Resident Director for Scandinavia, Wolters Kluwer

Key positions of trust:

- Chairman of the Board of Umeå Universitet, Vinnova and Pocketstället AB
- Member of the Board of Sveaskog, Finansinspektionen, NAXS, Rieber&Son ASA, Sveriges Radio, Vectura Consulting and the Forest Company Limited.

Independent member of Fortum's Board of Directors since 2004.

Fortum shareholding on 31 Dec. 2009: 900
(31 Dec. 2008: 900)



Christian Ramm-Schmidt

- Born 1946, BSc (Econ)
- Member of the Audit and Risk Committee

Main occupation:

- Senior Partner of Merasco Capital Ltd.

Primary work experience:

- President of Baltic Beverages Holding Ab (BBH)
- President of Fazer Biscuits Ltd., Fazer Chocolates Ltd., Fazer Confectionery Group Ltd.
- Director, ISS ServiSystems Oy

Key positions of trust:

- Member of the Board of Suomen Lähikauppa Oy and Boardman Oy

Independent member of Fortum's Board of Directors since 2006.

Fortum shareholding on 31 Dec. 2009: 3,500
(31 Dec. 2008: 3,500)

Group management (31 December 2009)



Tapio Kuula

- President and CEO since 2009
- Born 1957. MSc (Eng), MSc (Econ)
- Member of the Management Team since 1997
- Employed by Fortum since 1996

Previous positions:

- Fortum Corporation, Senior Vice President, 2005
- Fortum Power and Heat Oy, President, 2000
- Power and Heat Sector, Fortum Oy, President 2000
- Fortum Power and Heat Oy, Executive Vice President, 1999
- Imatran Voima Oy, Executive Vice President, Member of the Board, Member of the Management Team, 1997

Key positions of trust:

- OAO Fortum, Chairman of the Board
- Teollisuuden Voima Oyj, Vice Chairman of the Board
- Varma Mutual Pension Insurance Company, Member of the Supervisory Board
- Lappeenranta University of Technology, Member of the Board
- East Office of Finnish Industries Oy, Member of the Board

Fortum shareholding on 31 Dec. 2009: 73,147 (31 Dec. 2008: 64,465)



Anne Brunila

- Executive Vice President, Corporate Relations and Sustainability, since 2009
- Born 1957. DSc (Econ)
- Member of the Management Team since 2009
- Employed by Fortum since 2009

Previous positions:

- Finnish Forest Industries Federation, President and CEO, 2006
- Ministry of Finance, several positions, 2002
- The Bank of Finland, Advisor to the Board, 2002
- European Commission, Advisor, 2000
- The Bank of Finland, several positions, 1992

Key positions of trust:

- Kone Corporation, Member of the Board
- Sampo Plc, Member of the Board
- Aalto University Foundation, Member of the Board
- The Research Institute of Finnish Economy ETLA, Member of the Board
- Finnish Business and Policy Forum, EVA, Member of the Board
- State ownership steering group, Prime Minister's office, Member
- Finnish Delegation of International Chamber of Commerce, Member

Fortum shareholding on 31 Dec. 2009: 0



Alexander Chuvaev

- Executive Vice President, Russia Division; General Director of OAO Fortum; Country responsible for Russia since 2009
- Born 1960. MSc (Eng)
- Member of the Management Team since 2009
- Employed by Fortum since 2009

Previous positions:

- GE Oil & Gas, Regional Executive Director, Russia and CIS, 2009
- SUEK, Investment Development Director, Russia 2008
- JSC Power Machines, Managing Director, Russia, 2006
- GE Oil & Gas, Regional General Manager, Russia, 2006
- JSC OMZ, Chief Operations Officer, Russia, 2005
- GE, various positions in the USA and Canada, 1999
- Solar Turbines Europe S.A., various positions in Europe and the USA, 1991

Fortum shareholding on 31 Dec. 2009: 0



Mikael Frisk

- Senior Vice President, Corporate Human Resources, since 2001
- Born 1961. MSc (Econ)
- Member of the Management Team since 2001
- Employed by Fortum since 2001

Previous positions:

- Nokia Mobile Phones, Vice President, HR Global Functions, 1998
- Nokia-Maillefer, Vice President, HR, Lausanne, Switzerland, 1993
- Nokia NCM Division, HR Development Manager, 1992
- Oy Huber Ab, HR Development Manager, 1990

Key positions of trust:

- Talentor Group Oy, Member of the Board
- Staffpoint Oy, Member of the Board

Fortum shareholding on 31 Dec. 2009: 31,642 (31 Dec. 2008: 25,350)



Timo Karttinen

- Executive Vice President, Electricity Solutions and Distribution Division; Country responsible for Finland and Norway since 2009
- Born 1965. MSc (Eng)
- Member of the Management Team since 2004
- Employed by Fortum since 1991

Previous positions:

- Fortum Corporation, Senior Vice President, Corporate Development, 2004
- Fortum Power and Heat Oy, Business Unit Head, Portfolio Management and Trading, 2000
- Fortum Power and Heat Oy, Vice President, Electricity Procurement and Trading, 1999
- Imatran Voima Oy, Vice President, Electricity Procurement, 1997

Key positions of trust:

- Fingrid Oyj, Vice Chairman of the Board
- Association of Finnish Energy Industries, Vice Chairman of the Executive Board
- Gasum Oy, Member of the Supervisory Board
- AS Eesti Gaas, Member of the Supervisory Board
- Confederation of Finnish Industries, Member of the Trade Policy Committee and Energy Committee

Fortum shareholding on 31 Dec. 2009: 43,796 (31 Dec. 2008: 38,622)

**Juha Laaksonen**

- Executive Vice President and Chief Financial Officer since 2000
- Born 1952. BSc (Econ)
- Member of the Management Team since 2000
- Employed by Fortum since 1979

Previous positions:

- Fortum Corporation, Corporate Vice President, M&A, 2000
- Fortum Oil & Gas Oy, Executive Vice President, Finance & Planning, 1999
- Neste Oy, CFO 1998

Key positions of trust:

- Kemira Oyj, Member of the Board
- Teollisuuden Voima Oyj, Member of the Board
- Kemijoki Oy, Member of the Supervisory Board
- Sato Corporation, Chairman of the Board
- OAO Fortum, Member of the Board
- The Fortum Art Foundation, Chairman

Fortum shareholding on 31 Dec. 2009: 27,227 (31 Dec. 2008: 20,000)

**Per Langer**

- Executive Vice President, Heat Division; Country responsible for Sweden, Poland and the Baltics since 2009
- Born 1969. MSc (Econ)
- Member of the Management Team since 2009
- Employed by Fortum since 1999

Previous positions:

- Fortum Power and Heat Oy, President of Heat, 2007
- Fortum Power and Heat Oy, President of Portfolio Management and Trading, 2004
- Fortum Corporation, managerial positions, 1999
- Gullspång Kraft, managerial positions 1997

Key positions of trust:

- Karlskoga Energi och Miljö, Member of the Board
- AS Fortum Tartu, Supervisory Board Chairman

Fortum shareholding on 31 Dec. 2009: 5,489

**Maria Paatero-Kaarnakari**

- Senior Vice President, Corporate Strategy and R&D since 2009
- Born 1955. MSc (Eng)
- Member of the Management Team since 2007
- Employed by Fortum since 1985

Previous positions:

- Fortum Corporation, Senior Vice President, Corporate Strategy, 2007
- Fortum Corporation, Vice President, Corporate Development, 2000
- Neste Oy, Manager, Strategic Planning 1998
- Neste Polyester Inc, USA, Business Development Manager, 1997
- Neste Group, various managerial positions 1985

Fortum shareholding on 31 Dec. 2009: 4,044 (31 Dec. 2008: 5,751)

**Matti Ruotsala**

- Executive Vice President, Power Division since 2009
- Born 1956. MSc (Eng)
- Member of the Management Team since 2009
- Employed by Fortum since 2007

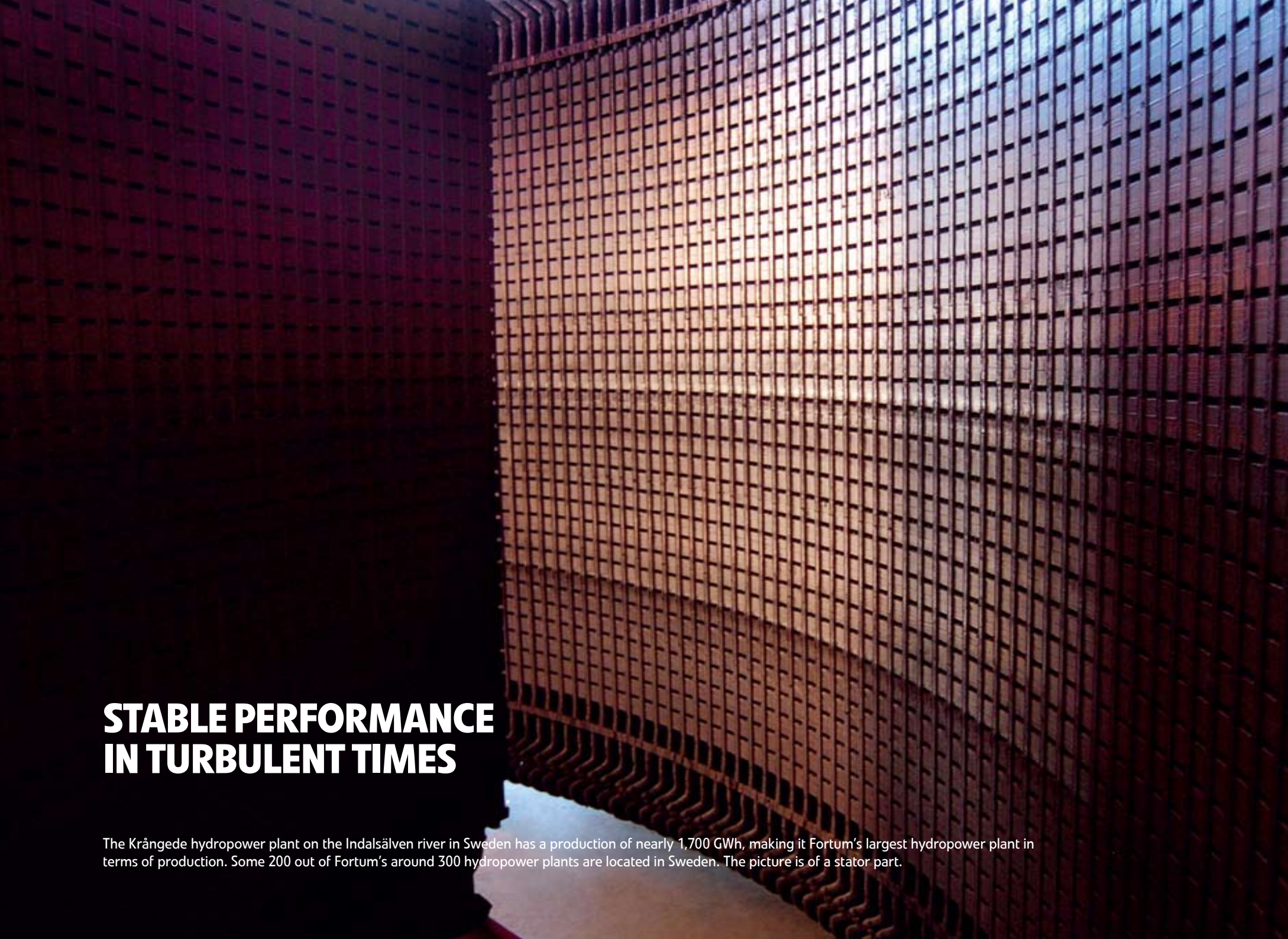
Previous positions:

- Fortum Power and Heat Oy, President of Generation, 2007
- Valtra Ltd, Managing Director, 2005
- AGCO Corporation, Vice President, 2005
- Konecranes Plc, Chief Operating Officer (COO) and Deputy to CEO, 2001
- Konecranes Plc and Kone Corporation, several senior and managerial positions, 1982

Key positions of trust:

- Kemijoki Oy, Chairman of the Board
- PKC Group Oyj, Chairman of the Board
- Teollisuuden Voima Oyj, Member of the Board
- OKG Aktiebolag, Member of the Board
- Forsmarks Kraftgrupp AB, Member of the Board
- Halton Group Ltd, Member of the Board
- Larox Corporation, Member of the Board

Fortum shareholding on 31 Dec. 2009: 0



STABLE PERFORMANCE IN TURBULENT TIMES

The Krångede hydropower plant on the Indalsälven river in Sweden has a production of nearly 1,700 GWh, making it Fortum's largest hydropower plant in terms of production. Some 200 out of Fortum's around 300 hydropower plants are located in Sweden. The picture is of a stator part.

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Operating & financial review

Financial performance

The year 2009 was a year of big swings in power and commodity prices. In the first half of the year, commodity prices and wholesale power prices decreased and were at low levels. During the second half of the year, commodity prices and also power prices in the Nordic region started to increase slowly from low levels.

Key financial figures

EUR million	2009	2008	2007
Sales	5,435	5,636	4,479
Operating profit	1,782	1,963	1,847
Operating profit, % of sales	32.8	34.8	41.2
Comparable operating profit	1,888	1,845	1,564
Profit before taxes	1,636	1,850	1,934
Profit for the period attributable to owners of the parent	1,312	1,542	1,552
Earnings per share, EUR	1.48	1.74	1.74
Net cash from operating activities	2,264	2,002	1,670
Shareholders' equity per share, EUR	9.04	8.96	9.43
Capital employed	15,350	15,911	13,544
Interest-bearing net debt	5,969	6,179	4,466
Equity to assets ratio, %	43	41	49
Average number of shares, 1,000s	888,230	887,256	889,997

Group financial targets

	Target	2009	2008	2007 Adjusted ¹⁾	2007
ROCE, %	12	12.1	15.0	14.0	16.5
ROE, %	14	16.0	18.7	15.8	19.1
Capital structure: Net debt / EBITDA	3.0–3.5	2.6	2.5	2.2	1.9

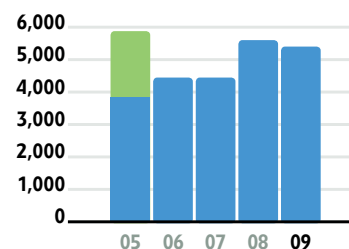
1) Adjusted for REC and Lenenergo gains

Fortum's comparable operating profit for the year 2009 was EUR 1,888 million (2008: 1,845). Operating performance improved from 2008 despite the clearly lower Nordic wholesale power price and the clearly lower power consumption in the Nordic area. In 2009, Distribution, Russia and Markets improved their performance, while results in Power and Heat fell short of the previous year.

Nordic power consumption was about 5% lower in 2009 compared to the previous year. The colder than usual weather and the pick-up in industrial activity improved the power demand outlook towards the year-end. Fortum currently expects Nordic power demand to recover back to the 2008 level by 2012–2014.

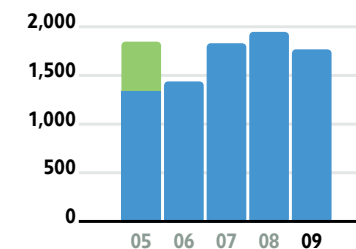
The Nord Pool average system price of electricity was EUR 35.0 per megawatt-hour (MWh) (2008: 44.7). In the same period, the Power division's achieved power price was EUR 49.8 per MWh (2008: 49.3), i.e. approximately the same level as last year, mainly thanks to hedging.

Sales, EUR million



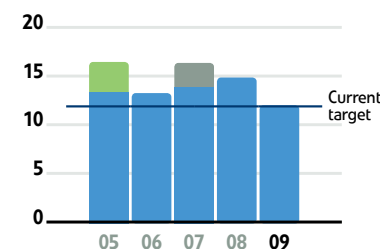
Discontinued oil operations

Operating profit, EUR million



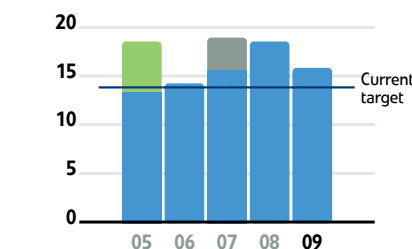
Discontinued oil operations

Return on capital employed, %



Discontinued oil operations
Incl. REC and Lenenergo gains

Return on shareholders' equity, %



Discontinued oil operations
Incl. REC and Lenenergo gains

Fortum's nuclear power generation was 2.3 terawatt-hours (TWh) below the nuclear generation in 2008. The ongoing modernisation and capacity upgrade projects of Swedish nuclear reactors will improve availability and safety and substantially increase nuclear capacity, but the projects caused longer than anticipated outages during 2009. In total, Fortum lost approximately 4 TWh of nuclear volume in Sweden during 2009 due to unplanned outages. This had a significant negative impact on Power's earnings during the year.

The performance improvement programme of OAO Fortum (former TGC-10) proceeded according to plan. Fortum is well on track to reach the targeted annual efficiency improvements of approximately EUR 100 million by 2011.

The power sector reform in Russia has progressed as planned. The share of produced wholesale power sold on the competitive market in Russia increased from 30% to 50% at the beginning of July 2009 and further from 50% to 60% at the beginning of January 2010.

Fortum's net debt to EBITDA for 2009 was 2.6 (2.5 at year-end 2008).

1 Market conditions

1.1 Nordic countries

According to preliminary statistics, during 2009, the Nordic countries consumed about 372 TWh (2008: 393). The decrease is mainly due to the drop in industrial consumption as a result of the recession. According to Fortum's estimate, Nordic industrial consumption decreased by close to 15% compared to 2008.

The average market price of coal (ICE Rotterdam) during the year 2009 was USD 70 (2008: 146) per tonne. The market price for CO₂ emission allowances for 2009 was EUR 13.4 per tonne CO₂.

Year 2009 started with the Nordic water reservoirs 5 TWh below the long-term average. At the end of 2009, the Nordic water reservoirs were 7 TWh below the long-term average and 2 TWh below the corresponding level last year.

In 2009, the average system spot price for power in Nord Pool was EUR 35.0 per MWh (2008: 44.7). The average Finnish area price was EUR 37.0 (2008: 51.0), and the Swedish area price was EUR 37.0 per MWh (2008: 51.1).

In Germany, the average spot price for the year 2009 was EUR 38.9 per MWh (2008: 65.8). Market coupling between Denmark and Germany was relaunched on 9 November 2009.

1.2 Russia

According to preliminary statistics, electricity demand in Russia during 2009 decreased by approximately 5.0% compared to 2008.

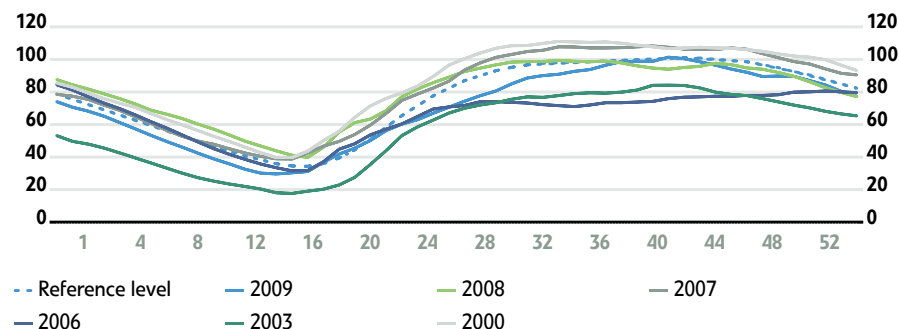
OAO Fortum operates in the Tyumen and Chelyabinsk areas, which belong to the Urals price zone. Electricity consumption in 2009 in the Urals region decreased by about 6% compared to the previous year. In the Tyumen area, where industrial production is dominated by oil and gas industries, electricity demand in 2009 was at the

same level as in 2008. Electricity demand in the Chelyabinsk area, which is dominated by the metals industry, is showing signs of picking up.

The average electricity spot price, excluding capacity price, in the European and Urals part of Russia in 2009 was 666 RUB per MWh (2008: 708). The regulated electricity prices increased from a year ago. The capacity prices are still mainly regulated and were, on average, higher than a year ago.

The power sector reform in Russia has progressed as planned. The share of produced wholesale power sold on the competitive market in Russia was increased from 30% to 50% at the beginning of July 2009 and further from 50% to 60% at the beginning of January 2010.

Nordic Water Reservoirs, Weekly filling as energy, TWh



2 Total power and heat generation figures

Fortum's total power generation during 2009 was 65.3 TWh (2008: 64.2), of which 48.1 TWh (2008: 51.6) was in the Nordic countries, representing 13% (2008: 13%) of the total Nordic electricity consumption. Fortum's total heat production during 2009 was 48.8 TWh (2008: 40.3), of which 19.0 TWh (2008: 20.8) was in the Nordic countries.

The increase in the total power and heat generation volumes is due to the inclusion of OAO Fortum, which has been consolidated from the beginning of April 2008.

The decrease in Nordic hydropower generation was mainly due to lower precipitation and inflows into Nordic water reservoirs during the first half of 2009. Year 2008 was an exceptionally good hydro year. The decrease in Nordic nuclear power generation is mainly due to the long upgrade outage in Oskarshamn 3.

At year-end, Fortum's total power generating capacity was 13,940 megawatts (MW) (2008: 13,573), of which 10,981 MW (2008: 10,643) was in the Nordic countries. At year-end, Fortum's total heat production capacity was 24,330 MW (2008: 24,263), of which 8,414 MW (2008: 8,448) was in the Nordic countries.

Fortum's total power and heat generation figures are presented below. In addition, the respective figures by division are presented in the division reviews.

Fortum's total power and heat generation in EU and Norway

TWh	2009	2008	2007
Power generation	49.3	52.6	52.2
Heat generation	23.2	25.0	26.1

Fortum's total power and heat generation in Russia

TWh	2009	2008	2007
Power generation	16.0	11.6	-
Heat generation	25.6	15.3	-

Fortum's own power generation by source, total in the Nordic countries

TWh	2009	2008	2007
Hydropower	22.1	22.9	20.0
Nuclear power	21.4	23.7	24.9
Thermal power	4.6	5.0	6.2
Total	48.1	51.6	51.1

Fortum's own power generation by source, total in the Nordic countries

%	2009	2008	2007
Hydropower	46	44	39
Nuclear power	44	46	49
Thermal power	10	10	12
Total	100	100	100

3 Total power and heat sales figures

Fortum's total power sales were 75.7 TWh (2008: 75.0), of which 54.9 TWh (2008: 59.1) were in the Nordic countries. This represents approximately 15% (2008: 15%) of the estimated Nordic electricity consumption during 2009. Fortum's total heat sales were 50.6 TWh (2008: 42.2), of which 18.0 TWh (2008: 20.0) were in the Nordic countries.

Fortum's total electricity¹⁾ and heat sales in EU and Norway

EUR million	2009	2008	2007
Electricity sales	2,802	2,959	2,370
Heat sales	1,095	1,157	1,096

Fortum's total electricity and heat sales in Russia

EUR million	2009	2008	2007
Electricity sales	390	332	-
Heat sales	219	141	-

Fortum's total electricity sales¹⁾ by country

TWh	2009	2008	2007
Finland	26.1	28.7	29.0
Sweden	26.9	28.5	27.6
Russia	19.5	14.8	-
Other countries	3.2	3.0	3.1
Total	75.7	75.0	59.7

Fortum's total heat sales by country

TWh	2009	2008	2007
Russia	25.6	15.3	-
Finland	8.0	10.8	11.1
Sweden	9.8	9.1	9.2
Poland	3.7	3.6	3.5
Other countries ²⁾	3.5	3.4	3.3
Total	50.6	42.2	27.1

1) Nord Pool transactions are calculated as a net amount of hourly sales and purchases at Group level.

2) Including the UK, which is reported in the Power segment, other sales.

4 Fortum's CO₂ emissions

In 2009, approximately 91% (2008: 92%) of the power generated by Fortum within the EU countries was CO₂-free.

Fortum's total CO₂ emissions subject to the EU's emission trading scheme (ETS) amounted to 7.7 million tonnes (2008: 7.2) of CO₂.

Fortum's total annual CO₂ allowance allocation for its power and heat plants is approximately 5.5 million tonnes per year during 2009–2012.

Fortum's target in the EU countries is to decrease its emissions in power generation to less than 80 g/kWh by 2020 as a five-year average. In heat production, Fortum aims at reducing the specific emissions in each country by at least 10% from 2006 until 2020. Outside the EU, Fortum is committed to increasing the energy efficiency, thus reducing specific emissions.

Total CO₂ emissions

Million tonnes	2009	2008	2007	2006
Total emissions	22.0	17.6	10.4	11.0
Emissions subject to ETS	7.7	7.2	9.8	10.5
Free emission allocation	5.5	5.9	8.1	8.1
Emissions in Russia	13.8	9.8	-	-

Specific CO₂ emissions of Fortum's power generation

g/kWh	2009	2008	2007	2006
Specific emissions within ETS	41	41	64	107

5 Fortum's new business structure

In October 2009 Fortum restructured its organisation into four business divisions and four staff functions in order to increase the organisation's efficiency, performance accountability and simplicity. The change took effect operationally on 1 October 2009.

The new business divisions are Power, Heat, Russia, and Electricity Solutions and Distribution. The reportable segments under IFRS have been renamed accordingly and the Electricity Solutions and Distribution Division is for transparency divided into two reporting segments, i.e. Distribution and Markets.

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

The Heat Division consists of combined heat and power production, district heating activities and business-to-business heating solutions.

The Electricity Solutions and Distribution Division is responsible for Fortum's electricity sales, solutions and distribution activities in regional and distribution networks.

The Russia Division consists of power and heat generation and sales in Russia. It includes OAO Fortum and Fortum's over 25% holding in TGC-1.

The staff functions are Finance, Corporate Relations and Sustainability, Corporate Human Resources, and Corporate Strategy and R&D.

6 Financial results

Sales by segment

EUR million	2009	2008	2007
Power	2,596	2,892	2,350
Heat	1,394	1,466	1,356
Distribution	800	789	769
Markets	1,449	1,922	1,683
Russia	623	489	-
Other	74	83	81
Netting of Nord Pool transactions ¹⁾	-1,095	-1,736	-1,163
Eliminations	-406	-269	-597
Total	5,435	5,636	4,479

¹⁾ Sales and purchases with Nord Pool 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.

Comparable operating profit by segment

EUR million	2009	2008	2007
Power	1,469	1,528	1,095
Heat	227	250	290
Distribution	262	248	231
Markets	22	-33	-1
Russia	-26	-92	-
Other	-66	-56	-51
Total	1,888	1,845	1,564

Operating profit by segment

EUR million	2009	2008	2007
Power	1,335	1,599	1,115
Heat	248	307	294
Distribution	263	248	233
Markets	22	-35	12
Russia	-26	-91	244
Other	-60	-65	-51
Total	1,782	1,963	1,847

Group sales were EUR 5,435 million (2008: 5,636). Group operating profit totalled EUR 1,782 million (2008: 1,963). Comparable operating profit totalled EUR 1,888 million (2008: 1,845).

The difference in non-recurring items, mark-to-market effects and nuclear fund adjustments between 2009 and 2008 was EUR -224 million, explaining the decline in the reported operating profit.

The average SEK rate in 2009 decreased by approximately 9% compared to 2008. The translation effect caused by the lower average SEK rate was approximately EUR –96 million in Fortum's 2009 comparable operating profit compared to last year.

The share of profits of associates and joint ventures was EUR 21 million, EUR 105 million lower than in the previous year. This was mainly due to the lower contribution from Hafslund ASA. Hafslund's effect was EUR 52 million of the decrease.

Fortum's liquidity remained strong. Liquid funds at the end of the year 2009 amounted to EUR 890 million and undrawn committed credit facilities were approximately EUR 2.9 billion.

The Group's net financial expenses decreased to EUR 167 million (2008: 239). The decrease is attributable to lower interest expenses. The change in fair value of financial instruments was EUR –1 million (2008: –11).

Profit before taxes was EUR 1,636 million (2008: 1,850).

Taxes for the period totalled EUR 285 million (2008: 254). The tax rate according to the income statement was 17.4% (2008: 13.7%).

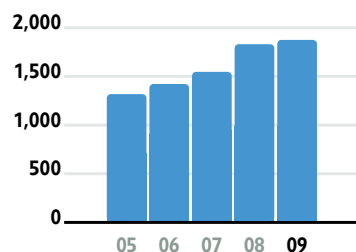
The profit for the period was EUR 1,351 million (2008: 1,596). Fortum's earnings per share were EUR 1.48 (2008: 1.74). As reported a year ago, the 2008 net earnings included EUR 184 million from one-time tax effects and non-recurring sales gains, mostly booked into the fourth-quarter results in 2008.

Non-controlling (minority) interests accounted for EUR 39 million (2008: 54). These are mainly attributable to Fortum Värme Holding AB, in which the city of Stockholm has a 50% economic interest.

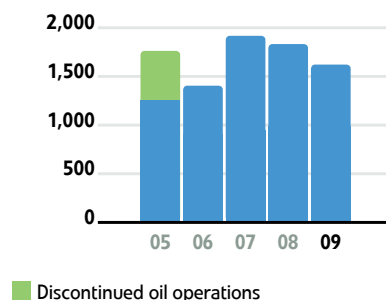
Return on capital employed was 12.1% for the year (2008: 15.0%), and return on shareholders' equity was 16.0% (2008: 18.7%).

Fortum's net debt to EBITDA for 2009 stood at 2.6 (2008: 2.5).

Comparable operating profit, EUR million



Profit before tax, EUR million



7 Division reviews

7.1 Power

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

EUR million	2009	2008	2007
Sales	2,596	2,892	2,350
- power sales	2,414	2,566	2,019
- other sales	182	326	331
Operating profit	1,335	1,599	1,115
Comparable operating profit	1,469	1,528	1,095
Net assets (at period-end)	5,512	5,331	5,599
Return on net assets, %	23.9	29.6	19.2
Comparable return on net assets, %	26.6	28.0	18.9
Gross investments	154	134	145
Number of employees	3,063	3,520	3,511

In 2009, the division's power generation in the Nordic countries was 43.7 TWh (2008: 46.9). Approximately 97% (2008: 97%) of that was CO₂-free.

The decrease in Nordic hydropower generation was mainly due to lower precipitation and inflows into Nordic water reservoirs during the first half of 2009.

The decrease in Nordic nuclear power generation is mainly due to the extensive power increase and safety modernisation outage in Oskarshamn 3, which started at the beginning of March 2009 and ended in mid-December 2009. Oskarshamn 3's capacity has increased by ~250 MW, of which Fortum's share is approximately 110 MW. Currently, the increased capacity is only partly available due to the ongoing testing period.

Nordic power generation by source

TWh	2009	2008	2007
Hydropower	22.1	22.9	20.0
Nuclear power	21.4	23.7	24.9
Thermal power	0.2	0.3	1.2
Total in the Nordic countries	43.7	46.9	46.1
Thermal in other countries	1.2	1.0	1.1
Total	44.9	47.9	47.2

Nordic sales volume

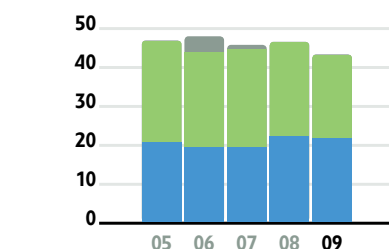
TWh	2009	2008	2007
Total	48.8	52.1	51.8
of which pass-through sales	3.6	3.7	5.2

Sales price

EUR/MWh	2009	2008	2007
Power's Nordic power price ¹⁾	49.8	49.3	39.7

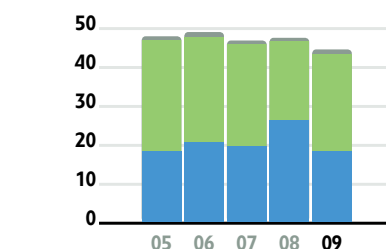
1) For the Power Division in the Nordic area, excluding pass-through sale.

Division's power generation in the Nordic countries by source, TWh



■ Thermal power
■ Nuclear power
■ Hydropower

Division's power generation by country, TWh



■ Other countries
■ Sweden
■ Finland

During 2009, the average system spot price in Nord Pool was EUR 35.0 per MWh, while the Finnish and Swedish area prices were EUR 37.0 per MWh. Power's achieved Nordic power price was EUR 49.8 per MWh, approximately the same level as last year.

In 2009, Power's comparable operating profit was lower than in the corresponding period last year. This was mainly due to the lower hydro and nuclear generation volumes. The translation effect from the weaker SEK was approximately EUR -70 million in the division's 2009 comparable operating profit.

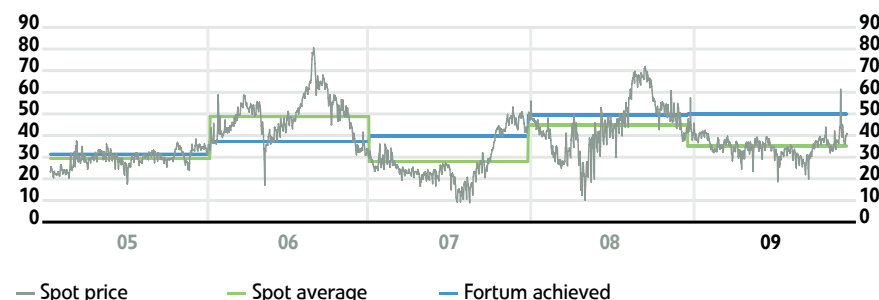
In February 2009, Fortum submitted an application to the Government of Finland for a decision-in-principle concerning the construction of a new nuclear power plant unit in Loviisa. Fortum is one of three applicants applying for the decision-in-principle. The Government is expected to make its proposal to the Parliament during 2010.

Fortum is a shareholder in Teollisuuden Voima Oyj (TVO), a nuclear generation company operating two nuclear power units in Olkiluoto, Finland. TVO is in the process of building a third unit, Olkiluoto 3. Based on the latest progress report submitted by the plant supplier, AREVA-Siemens, TVO has estimated that the start-up of the plant may be postponed beyond June 2012, which was the schedule confirmed by the supplier.

In late March, TVO's shareholders committed to providing a EUR 300 million subordinated shareholder's loan to TVO. Fortum's share of this commitment is at maximum EUR 75 million.

Nord Pool Power Price 2005–2009,

Annual average spot price and Fortum's achieved Nordic power price, EUR/MWh



7.2 Heat

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

EUR million	2009	2008	2007
Sales	1,394	1,466	1,356
- heat sales	1,054	1,120	1,053
- power sales	224	228	202
- other sales	116	118	101
Operating profit	248	307	294
Comparable operating profit	227	250	290
Net assets (at period-end)	3,786	3,468	3,507
Return on net assets, %	7.8	8.9	9.3
Comparable return on net assets, %	7.2	7.3	9.2
Gross investments	359	431	327
Number of employees	2,246	2,318	2,279

The division's heat sales during 2009 amounted to 22.9 TWh (2008: 24.9), most of which was generated in the Nordic countries. During the same period, power sales from CHP production totalled 4.4 TWh (2008: 4.7).

The decrease in the sales volume is mainly due to the sale of a CHP company in Jyväskylä, Finland, at the end of 2008 and lower demand from industrial customers.

In 2009, the division's comparable operating profit was EUR 227 million, EUR 23 million lower than the year before.

The decrease was mainly due to the EUR –17 million translation effect from a weaker SEK and PLN, mainly in the first half of the year.

Fortum started the commercial operation of the new CHP unit in Espoo, Finland, during the fourth quarter. The construction of the CHP plants in Częstochowa, Poland, and Pärnu, Estonia, proceeded.

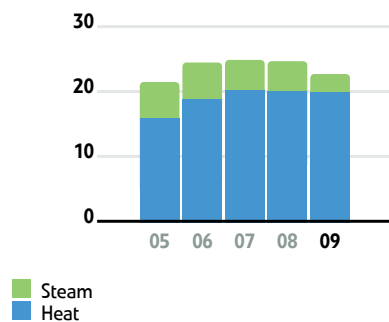
Heat sales by country

TWh	2009	2008	2007
Finland	8.0	10.8	11.1
Sweden	9.8	9.1	9.2
Poland	3.7	3.6	3.5
Other countries	1.4	1.4	1.3
Total	22.9	24.9	25.1

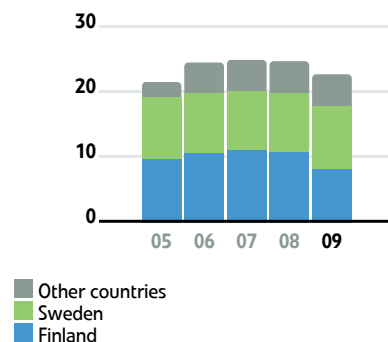
Power sales

TWh	2009	2008	2007
Total	4.4	4.7	5.0

Division's district heating and industrial steam sales, TWh



Division's district heating and industrial steam sales by country, TWh



7.3 Distribution (Electricity Solutions and Distribution)

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

EUR million	2009	2008	2007
Sales	800	789	769
- distribution network transmission	685	669	648
- regional network transmission	75	77	81
- other sales	40	43	40
Operating profit	263	248	233
Comparable operating profit	262	248	231
Net assets (at period-end)	3,299	3,032	3,239
Return on net assets, %	8.7	8.1	7.7
Comparable return on net assets, %	8.6	8.2	7.6
Gross investments	193	296	237
Number of employees	1,088	1,336	1,063

In 2009, the volume of distribution and regional network transmission totalled 25.9 TWh (2008: 25.8) and 16.4 TWh (2008: 17.7), respectively.

Electricity transmission via the regional distribution network totalled 13.6 TWh (2008: 14.8) in Sweden and 2.8 TWh (2008: 2.9) in Finland.

The comparable operating profit of the Distribution business area was EUR 262 million in 2009, EUR 14 million higher than the previous year, though the 2009 results were somewhat affected by a negative translation effect from the weaker SEK. The result in 2008 was burdened by AMM implementation-related costs in the Swedish operations.

The new Swedish legislation on monthly meter reading came into effect on 1 July 2009. In order to meet the new requirements, Fortum has replaced 844,000 electricity meters with new smart meters.

In August 2009, a contract for the automatic meter management in Finland was signed with the service provider Telvent. The total value of the investment is approximately EUR 170 million over a period of nine years. The investment includes the purchase of the smart meters, installation, operation and development of the system as well as the related services. The new Finnish legislation on meter reading requirements will be effective as of 1 January 2014.

In October 2009, the Swedish Energy Market Inspectorate (EI) delivered an investigation regarding the handling of capital costs and basic principles of the new Ex-Ante regulation model, and launched principles for the intermediate regulation for the period 2008–2011. The formal decision regarding the Ex-Ante regulation in Sweden starting from 2012 was made by the Swedish Parliament in June 2009. In the new regulation, network pricing will be determined in advance.

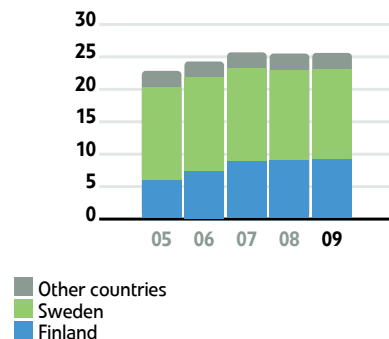
Volume of distributed electricity in distribution network

TWh	2009	2008	2007
Sweden	14.0	14.0	14.3
Finland	9.4	9.3	9.2
Norway	2.3	2.3	2.3
Estonia	0.2	0.2	0.2
Total	25.9	25.8	26.0

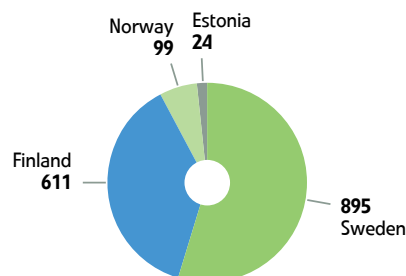
Number of electricity distribution customers by country

Thousands	2009	2008	2007
Sweden	895	877	871
Finland	611	606	591
Norway	99	99	98
Estonia	24	24	24
Total	1,629	1,606	1,584

Volume of distributed electricity by country, TWh



Number of electricity customers by country, Thousands



7.4 Markets (Electricity Solutions and Distribution)

Markets business area is responsible for retail sales of electricity to a total of 1.2 million private and business customers as well as to other electricity retailers in Sweden, Finland and Norway. Markets buys its electricity through Nord Pool. Markets sells approximately 70% of its volumes to business customers and 30% to retail consumers.

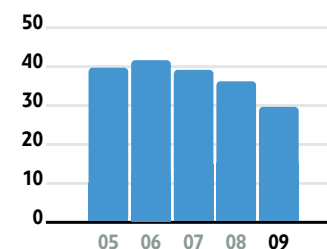
EUR million	2009	2008	2007
Sales	1,449	1,922	1,683
- power sales	1,417	1,865	1,582
- other sales	32	57	101
Operating profit	22	-35	12
Comparable operating profit	22	-33	-1
Net assets (at period-end)	147	188	247
Return on net assets, %	16.8	-14.0	6.9
Comparable return on net assets, %	18.6	-15.3	-0.6
Gross investments	1	3	3
Number of employees	611	635	935

In 2009 Markets' sales volume was 30.0 TWh (2008: 36.6).

The decrease in the sales volume continued mainly due to the lower consumption by business customers and discontinued contracts with some large business customers. The customer churn in the consumer market segment increased clearly during 2009.

The improvement in Markets' performance in 2009 was based on Markets' successful turnaround programme, including the launch of the new pricing model in the Consumer Market segment, renegotiated sales agreements in the Business Customer segment, renewed hedging operations and tighter cost controls.

Power sales, TWh



7.5 Russia

The Russia Division consists of power and heat generation and sales in Russia. It includes OAO Fortum and Fortum's over 25% holding in TGC-1. OAO Fortum is accounted for as a subsidiary and fully consolidated from 1 April 2008. TGC-1 is an associated company and accounted for using the equity method.

EUR million	2009	2008	2007
Sales	623	489	-
- power sales	390	332	-
- heat sales	219	141	-
- other sales	14	16	-
EBITDA	49	-24	-
Operating profit	-26	-91	244
Comparable operating profit	-26	-92	-
Net assets (at period-end)	2,248	2,205	456
Return on net assets, %	-0.3	-3.7	66.3
Comparable return on net assets, %	-0.3	-3.8	0.0
Gross investments	218	1,748	245
Number of employees ¹⁾	4,090	7,262	-

1) In January 2009, around 1,100 persons working at OAO Fortum were transferred internally from the Russia Division to the Power Division.

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

In 2009, the power sales were 19.5 TWh (14.8 TWh in Q2-Q4/2008) and the heat sales 25.6 TWh (15.3 TWh in Q2-Q4/2008). The division sold approximately 2/3 of its power in Tyumen and other oil- and gas-producing areas in the OAO Fortum region. The remaining 1/3 of its volumes were sold in the Chelyabinsk region, where the metals industry dominates wholesale electricity demand.

For the full year 2009, the share of electricity sold at the liberalised price was 34%.

Key electricity, capacity and gas prices for OAO Fortum

	2009	2008
Electricity spot prices (market prices), Urals hub, RUB/MWh	633	672
Average regulated electricity price for OAO Fortum, RUB/MWh	533	475
Average regulated capacity price, RUB/MW/month	187.3	167.8
Average limit gas price in Urals region, RUB/1,000 m ³	1,782	1,560

In 2009, the Russia Division's comparable operating profit, EUR -26 million, was an improvement of EUR 66 million compared to the previous year. The increase mainly stems from OAO Fortum's efficiency improvement programme and a higher electricity sales margin.

OAO Fortum figures have been consolidated from the beginning of April 2008.

OAO Fortum's business is typically very seasonal, the results usually being strongest during the first and last quarters of the year.

The Russian power sector reform is proceeding. Starting 1 January 2009, 30% of all produced power in Russia was sold on the competitive market. The share increased to 50% at the beginning of July 2009 and further to 60% at the beginning of January 2010. The wholesale power market is expected to be fully liberalised in the beginning of 2011. The rules for the long-term capacity market are currently under consideration by the Russian government and a decision is expected before the end of 2010.

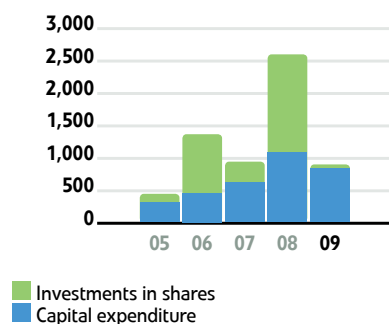
OAO Fortum's efficiency improvement programme is proceeding according to plan. The annual efficiency improvements are expected to be approximately EUR 100 million in 2011.

8 Capital expenditure, investments & divestments of shares

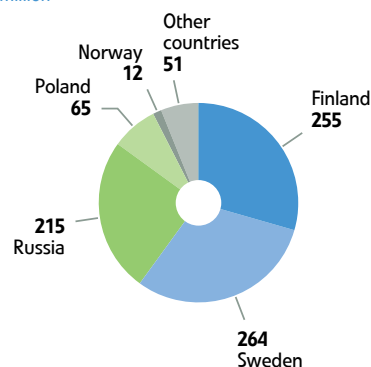
EUR million	2009	2008	2007
Capital expenditure			
Intangible assets	20	24	11
Property, plant and equipment	842	1,084	644
Total	862	1,108	655
Gross investments in shares			
Subsidiaries	8	1,506	18
Associated companies	58	8	295
Available for sale financial assets	1	2	4
Total	67	1,516	317

Capital expenditure and investments in shares in 2009 totalled EUR 929 million (2008: 2,624). Investments, excluding acquisitions, were EUR 862 million (2008: 1,108).

Capital expenditure and gross investments in shares, EUR million



Capital expenditures per country, EUR million



In 2010, Fortum expects to commission new power/heat capacity as follows:

	Type	Capacity electricity MW	Capacity heat MW	Available
Heat				
Częstochowa, Poland	CHP bio, coal	65	120	Q3/2010
Pärnu, Estonia	CHP bio, peat	20	45	end 2010
Power				
Hydro refurbishment	Hydropower	20–30		2010
Russia				
Tuymen 1	CHP/Condensing, gas	190		Q3/2010
Tobolsk	Condensing, gas	210		Q3/2010
Chelyabinsk 3	CHP/Condensing, gas	220		Q4/2010

8.1 Power

Fortum and the Norwegian Hafslund Infratek ASA combined their businesses of construction and operating of infrastructure in Sweden, Finland and Norway as of 15 January 2009.

8.2 Heat

Heat continued its development programme to ensure future competitiveness and an optimal asset portfolio.

A new CHP plant in Tartu, Estonia, was taken into commercial use in late March 2009 and a new CHP plant in Espoo was taken into use in December 2009. The construction of the new CHP plants in Częstochowa, Poland and in Pärnu, Estonia, proceeded.

In August Fortum sold its CHP plant in Kokkola, Finland, to the city of Kokkola. The transaction price was around EUR 24 million.

In December, Fortum agreed to sell its shares in the Swedish gas transmission company Swedegas AB. The transaction will take place in early 2010.

8.3 Distribution

The EU's third energy market package entered into force in early September 2009. One of the consequences is that Fortum will have to divest its 25% ownership in the Finnish electricity transmission system operator Fingrid Oyj by early 2012. Consequently, Fortum is investigating alternatives for the sale of the Fingrid shares. Currently Fortum expects the sales process of Fingrid shares to take place during 2010.

8.4 Russia

OAo Fortum's ongoing investment programme will increase its power capacity with 2,300 MW. The value for the remaining part of the programme, calculated at year-end 2009 exchange rates, is estimated to be EUR 1.8 billion from January 2010 onwards.

The Russian Government is currently reviewing the investment programmes of the generating companies in light of the decreased power demand. Fortum has confirmed its commitment to fulfill OAo Fortum's investment programme. However, the potential postponement of some projects by 1–3 years is currently under review with a favourable outlook.

9 Financing

EUR million	2009	2008	2007
Interest expense	–241	–351	–220
Interest income	98	143	76
Fair value gains and losses	–1	–11	7
Other financial expenses	–23	–20	–17
Finance costs - net	–167	–239	–154
Interest-bearing liabilities	6,859	7,500	4,893
Liquid funds	890	1,321	427
Interest-bearing net debt	5,969	6,179	4,466

At year-end, the interest-bearing net debt stood at EUR 5,969 million (2008: 6,179), resulting in a total decrease in net debt during the year of EUR 210 million.

Cash flow during the year was strong with net cash from operating activities amounting to EUR 2,264 million (2008: 2,002). Cash generated was primarily used for investing activities and dividend payments. Net cash used for investment activities in 2009 was EUR 974 million (2008: 2,282), and dividend payments amounted to EUR 888 million (2008: 1,198).

Net debt to EBITDA for 2009 was 2.6 (2008: 2.5).

The Group's net financial expenses in 2009 were EUR 167 million (2008: 239). The decrease in financial expenses is mainly attributable to lower average interest rates in 2009 compared to 2008. Net financial expenses include a fair value loss on financial instruments of EUR 1 million (2008: fair value loss 11).

The average interest rate on Fortum's interest-bearing debt (including derivatives) for 2009 was 3.7% (2008: 5.3%).

Group liquidity remained strong. Year-end liquid funds totalled EUR 890 million (2008: 1,321), of which EUR 632 million (2008: 1,020) was cash held by OAO Fortum and earmarked for the company's investment programme. In addition, the Group had a total of approximately EUR 2.9 billion (2008: 2.3) available for drawing under committed credit facilities.

During the year Fortum raised new long-term financing in excess of EUR 2 billion, through the approximately EUR 1.6 billion bond issuance under Fortum's Euro Medium Term Note Programme, and bilateral long-term loans in excess of EUR 0.5 billion. The proceeds of these new financings were used to refinance maturing debt in 2009 as well as to partially repay loan facilities maturing in 2011 and approximately RUB 8 billion (EUR 180 million) of bonds due in 2010 and 2013. Short-term financing (mainly the issuance of commercial papers) decreased to EUR 308 million (2008: 520) at year-end.

During the year Fortum Corporation's long-term credit rating from Standard and Poor's was increased from "A-" to "A" (stable), following a change in their rating methodology of "Government-related entities". The long-term credit rating from Moody's was at year end "A2" (stable).

10 Employees

The number of employees at the end of the period was 11,613 (2008: 15,579), of which 11,332 (2008: 15,264) were permanent employees.

The outsourcing of certain infrastructure service functions to Infratek ASA in January 2009 reduced the number of people in Power and Distribution.

In the first quarter of 2009, around 1,100 persons working at OAO Fortum were transferred internally from the Russia division to the Power division.

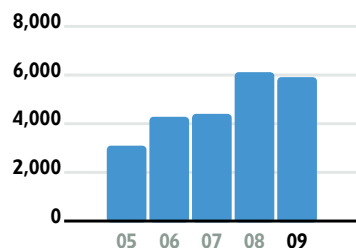
OAO Fortum discontinued its operation and maintenance contract with the city of Tyumen for the operation of municipal heat networks as of 1 July 2009. This reduced the number of OAO Fortum employees by approximately 750.

The number of employees in the parent company, Fortum Corporation, at year end totalled 409 (2008: 434).

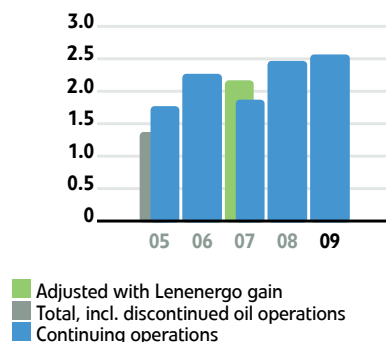
	2009	2008	2007
Number of employees, 31 Dec	11,613	15,579	8,303
Average number of employees	13,278	14,077	8,304
Total amount of employee costs, EUR million	491	587	495

➤ For further details of group personnel see Note 12 Employee cost and management remuneration on page 143 of the Consolidated Financial Statements. See also page 48 of the Annual Report.

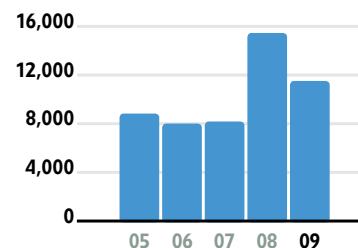
Interest-bearing net debt, EUR million



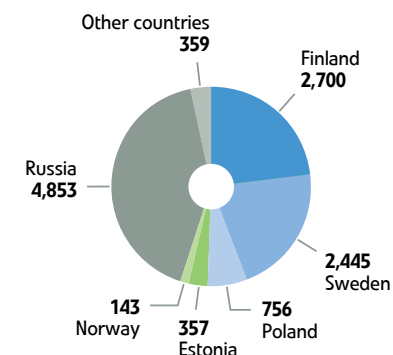
Net debt / EBITDA



Number of employees



Employees per country



11 Change in Fortum management

On April 7 2009, Tapio Kuula, member of Fortum Corporation Management Team, was appointed Fortum Corporation's President and CEO as of 1 May 2009. Tapio Kuula has worked at Fortum since 1996 and has been a member of the Management Team since 1997.

In August 2009 the following Management Team was appointed, taking effect on 1 October 2009:

- Tapio Kuula, President and CEO.
- Matti Ruotsala, Executive Vice President, Power Division.
- Per Langer, Executive Vice President, Heat Division. Country responsible for Sweden, Poland and Baltics.
- Alexander Chuvaev, Executive Vice President, Russia Division. General Director, OAO Fortum. Country responsible for Russia.
- Timo Karttinen, Executive Vice President, Electricity Solutions and Distribution Division. Country responsible for Finland and Norway.
- Juha Laaksonen, Executive Vice President and Chief Financial Officer.
- Anne Brunila, Executive Vice President, Corporate Relations and Sustainability.
- Mikael Frisk, Senior Vice President, Corporate Human Resources.
- Maria Paatero-Kaarnakari, Senior Vice President, Corporate Strategy and R&D.

Matti Ruotsala, Per Langer, Alexander Chuvaev and Anne Brunila are new Management Team members.

12 Events after the balance sheet date

In January 2010, Fortum acquired the combined heat and power plant in the town of Nokia, Finland.

The share of produced wholesale power sold on the competitive market in Russia was increased from 50% to 60% from the beginning of January 2010.

13 Outlook

13.1 Key drivers and risks

The key factor influencing Fortum's business performance is the wholesale price of electricity. Key drivers behind wholesale price development are the supply-demand balance, fuel and CO₂ emissions allowance prices as well as the hydrological situation. The exchange rates of the Swedish krona and Russian rouble also affect Fortum's financials. The balance sheet translation effects from potential changes in currency exchange rates are booked in Fortum's equity.

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

For further details on Fortum's risks and risk management, see the Risk management section of the Operating and Financial Review on page 98 and Note 3 Financial risk management on page 126 in the Consolidated Financial Statements.

13.2 Market demand

The recession has impacted the markets in which Fortum operates. This may increase Fortum's counterparty risk. The electricity consumption in the Nordic countries and Russia may continue to be depressed.

Fortum currently expects Nordic power demand to recover back to the 2008 level by 2012–2014. Electricity will continue to gain a higher share of the total energy consumption.

13.3 Russia

In Russia, one of the key assumptions in the OAO Fortum acquisition is the continuation of the Russian power sector reform. As planned, the share of power sold at a competitive price was increased from 30% to 50% on 1 July 2009 and from 50% to 60% at the beginning of January 2010. The share is planned to be increased from 60% to 80% at the beginning of July 2010. The wholesale power market is expected to be fully liberalised by 2011.

The rules for the long-term capacity market are currently under consideration by the Russian government and a decision is expected before the end of the year 2010.

The average limit gas price (regulated gas price) for the first quarter of 2010 will increase by 15%. The planned increase for the full year 2010 is 24%. The regulated electricity price is indexed to the regulated gas price and inflation on an annual basis.

OAO Fortum is committed and contractually obligated to a significant investment programme, amounting to approximately EUR 1.8 billion for 2010 and onwards. The Russian Government is currently reviewing the investment programmes of the generating companies in light of the decreased power demand stemming from the current recession. Fortum has confirmed its commitment to fulfil OAO Fortum's investment programme. However, the potential postponement of some projects by 1–3 years is currently under review with a favourable outlook.

Annual efficiency improvements are expected to be approximately EUR 100 million in 2011.

13.4 Capital expenditure

Fortum expects its annual capital expenditure in the next 4–5 years to be within a range of EUR 0.8–1.2 billion.

13.5 Hedging

In late January 2010, the electricity forward price in Nord Pool for the rest of 2010 was around EUR 44 per MWh. The electricity forward price for 2011 was around EUR 42 per MWh and for 2012 around EUR 41 per MWh. At the same time, the future quotations for coal (ICE Rotterdam) for the rest of 2010 were around USD 84 per tonne and the market price for CO₂ emissions allowances (EUA) for 2010 was about EUR 13 per tonne.

In late January 2010, Nordic water reservoirs were about 14 TWh below the long-term average, and 6 TWh below the corresponding level of 2009.

Fortum Power's achieved Nordic power price typically depends on the hedge ratio, hedge price, spot prices, availability and utilisation of Fortum's flexible production portfolio and currency fluctuations. Excluding the potential effects from the changes in the power generation mix, a 1 EUR/MWh change in Power's achieved Nordic power price results in an approximately EUR 50 million change in Fortum's annual operating profit.

At the end of December 2009, Fortum had hedged approximately 70% of the Power division's estimated Nordic electricity sales volume for the year 2010 at approximately EUR 44 per MWh. For the calendar year 2011, approximately 40% of the division's estimated Nordic electricity sales volume was hedged at approximately EUR 42 per MWh.

The reported hedge ratios may vary significantly, depending on Fortum's actions on the electricity derivatives markets. Hedges are mainly financial contracts, most of them Nord Pool forwards or standardised futures, consisting of several types of products and maturities.

The first and last quarters of the year are usually the strongest quarters for the power and heat businesses.

Fortum's results in 2009 were good, despite the challenging economic environment. The company has a flexible, cost-efficient and climate-benign generation portfolio. Fortum's financial position and liquidity are strong.

14 Research and development

R&D activities are geared towards Fortum's long-term goal to be a carbon dioxide-free company. Activities are based on building networks and partnerships with leading research organisations, engineering companies, and equipment and plant suppliers. Fortum also conducts in-house research and development in strategically significant key areas.

In 2009, Fortum's R&D activities focused strongly on the development of a nuclear combined heat and power (CHP) plant concept, smart grids and electric vehicles. Important steps were taken also in carbon capture and storage activities.

Replacing coal- and natural gas-fired CHP-production in the Helsinki metropolitan area with district heat produced at the Loviisa 3 nuclear power plant unit could reduce Finland's CO₂ emissions by 4 million tonnes per year. Fortum worked to develop concepts for steam extraction from the turbines together with turbine manufacturers, studied options for heat transport, modelled the district heat transport system and with the Apros simulation software, analysed safety issues associated with the system.

Smart grids became an important new priority in Fortum's R&D in 2009. A smart grid is an electricity network that can intelligently integrate the actions of all users connected to it – electricity generators, consumers and those that do both – in order to efficiently deliver sustainable, economic and secure electricity. Fortum started

several concrete development projects in the realm of smart grids and electricity in transportation during the year.

Fortum and TVO announced cooperation with Siemens Energy and with Maersk Oil and Maersk Tankers in the field of carbon capture and storage. Siemens Energy has been selected as the capture technology partner for the FINNCAP - Meri-Pori Carbon Capture and Storage (CCS) project. The partners wish to combine carbon capture at the Meri-Pori power plant with CO₂ transportation by Maersk Tankers' vessels and Maersk Oil's geological storage.

The group's total R&D expenditure in 2009 was EUR 30 million (2008: 27).

Fortum's R&D expenditure amounts to 0.5% of sales (2008: 0.5%) and 0.9% (2008: 0.8%) of total expenses.

	2009	2008	2007
R&D expenditure, EUR million	30	27	21
R&D expenditure, % of sales	0.5	0.5	0.5
R&D expenditure, % of total expenses	0.9	0.8	0.8

➤ For further details on research and development, see page 38 of the Annual Report.

15 Sustainability

Fortum's vision statement "to be the benchmark power and heat company excelling in sustainability" expresses the company's firm belief that sustainability is a success factor for its business.

Fortum's Sustainability Agenda specifies the entire Group's shared long- and medium term sustainability goals that guide the annual goal setting and operational planning of the divisions. The agenda has three important elements: the desired future position for Fortum, our goals for 2020 and the actions to reach those goals.

The desired position defines our strategic ambitions. We want to:

- be an enabler of a low-carbon society;
- provide sustainable energy solutions for our customers;
- be known as the responsible energy company.

Mitigating climate change is one of Fortum's most important strategic goals. In the long-term, Fortum's vision is to be a CO₂-free power and heat company. In March 2009, Fortum signed a declaration aiming to achieve a carbon-neutral power supply by the middle of this century together with 61 European energy companies representing over 70% of all EU electricity production.

Between 1990–2009, Fortum has reduced the specific emissions of its energy production in the EU by 50%. In 2009, 91% of the power generated by Fortum within the EU countries was CO₂-free. The corresponding figure including the Russian production was 69%. The specific CO₂ emissions from our total production were 176 g/kWh (2008: 134) and in the EU countries 41 g/kWh (2008: 41), which continues to be among the

lowest of the major European power companies. Fortum's target in the EU countries is to decrease its emissions in power generation to less than 80 g/kWh by 2020 as a five-year average. In heat production, Fortum aims at reducing the specific emissions in each country by at least 10% from 2006 until 2020. Outside the EU, Fortum is committed to increasing the energy efficiency of power plants and thus reducing specific emissions.

In 2009 Fortum's total emissions were 22.0 million (2008: 17.6) tonnes of CO₂. Carbon dioxide emissions from Fortum's own power plants in Russia were 13.8 million (2008: 9.8) tonnes. The total CO₂ emissions subject to the EU's emissions trading scheme (ETS) amounted to 7.7 million (2008: 7.2) tonnes of CO₂.

Kyoto mechanisms are an important part of Fortum's climate strategy. In 2009, Fortum's investments in international carbon funds started generating emission reductions. Fortum expects to receive a total of one million emission reduction units from the carbon funds, including the World Bank's Prototype Carbon Fund and The Testing Ground Facility Fund. In 2009, Fortum also continued the preparation of joint implementation projects in Russia. About 3.5 million emission reduction units are expected from these projects by 2012.

In 2009, there were a total of 37 (of which 8 in Russia) occupational accidents (2008: 63) leading to an absence of more than one working day. The frequency excluding Russia was 2.4 injuries (2008: 4.3) per one million working hours, nearly achieving Fortum's target value of 2 for 2009. There were two fatalities for subcontractors in Russia. In order to meet the new very ambitious target of less than 1 injury per million working hours in 2010, Fortum will step up its safety efforts further.

In 2009, a new EHS (Environmental, health and safety) organisation was created in OAO Fortum. Its task is to become ISO 14001 certified by 2012. The implementation of the EHS Action Plan continued with focus on the efficiency improvements in district heating where there is an enormous potential for energy savings and decreased emissions. During the year an ambitious occupational health and safety program was launched at OAO Fortum covering all plants, personnel and contractors. The target of the program is to achieve the Fortum way of working regarding safety also in Russia by 2012.

Along with the financial and quality assessment, sustainability is an integral and natural part of the assessment of suppliers at the procurement function. In 2009, operating guidelines for subcontractors have been attached to 85% of subcontractor agreements exceeding EUR 50,000 in Finland and Sweden. In 2009, the guidelines were also applied in Poland and the Baltic countries.

➤ For further details on Sustainability see page 41 in the Annual Report.

Risk management

Risk management is an integrated part of business planning and performance management. Its purpose is to enable the execution of the company's strategy and to support the business in achieving financial targets.

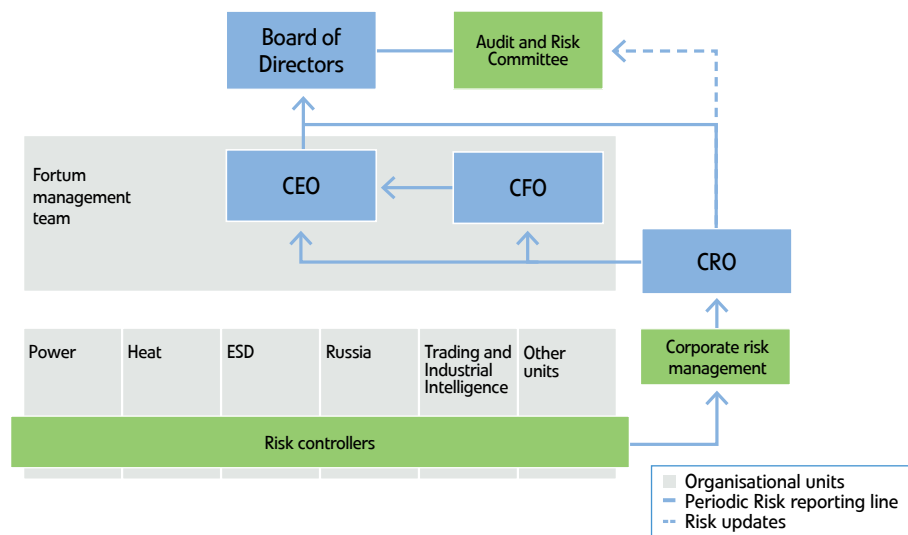
1 Risk management framework

1.1 Objective

Involvement in the power and heat business exposes Fortum to several types of financial, operational and strategic risks. Electricity prices, which in turn are affected by the weather in the Nordic region and the development of the global commodity markets, are the main sources of financial risk. The Russian business is exposed to fuel and electricity prices in form of margin exposure.

Fortum is continuously developing its risk management capabilities to cope with prevailing market conditions, developing operations and an ever-changing business environment. In the Risk Management development work the focus has been on further enhancing the framework for operational risk management especially within the concept of internal controls and compliance risk management. At the same time market and credit risk modelling has been continuously developed.

Fortum's risk management reporting structure



1.2 Policy

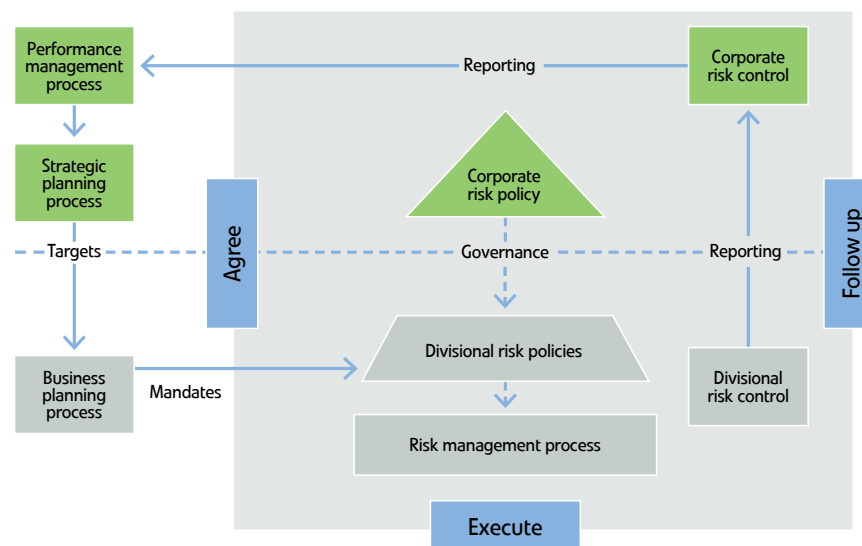
Fortum's Board of Directors approves the Corporate Risk Policy which sets the objective, principles and division of responsibilities for risk management activities within the Group as well as defines the overall risk management process.

Corporate guidelines are issued for those risks which are managed on Group level. Corporate Treasury is responsible for managing the Group's currency, interest rate, and liquidity and refinancing risks as well as for insurance management. Corporate Credit Control is responsible for assessing and consolidating the Group's exposure to counterpart risk, monitoring the creditworthiness of counterparts and for approving counterpart credit limits. Corporate IT is responsible for managing IT information and security risks. There are also corporate functions dealing with risks related to human resources, laws and regulation, and sustainability.

1.3 Organisation

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

Risk management process



1.3.1 Process

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

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

2 Description of risks

2.1 Strategic risks

Fortum seeks growth both by leveraging organic growth opportunities and actively participating in further Nordic consolidation. Fortum's aim is to grow profitably in chosen market areas: the Nordic countries, Russia, Poland and the Baltic countries. The growth possibilities are in part subject to regulatory supervision and political decisions.

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

2.1.1 Integration risks

Fortum's growth strategy includes expanding operations, particularly in Poland and Russia. In the first quarter of 2008, Fortum acquired a controlling stake in the Russian territorial generating company TGC-10. The integration of OAO Fortum (former TGC-10) has proceeded well but integration of any other such business may be difficult for a variety of reasons, including differing business environment, culture or management styles. As a result any potential future acquisition poses risks to existing operations, including:

- additional demands placed on senior management, who are also responsible for managing existing operations;
- increased overall operating complexity, requiring greater personnel and other resources;
- additional cash expenditures;

- the need to attract and retain sufficient numbers of qualified management and other personnel.

2.1.2 Political and regulatory risks

Development of the political and regulatory environment has a major impact on the energy industry and on the conditions of its business operations. Fortum is thus exposed to regulatory risks in various countries. Regulatory bodies and competition authorities regularly perform analysis, investigations and inquiries, which might lead to changes in business conditions. To manage these risks and proactively participate in the development of the political and regulatory framework, including energy taxation, Fortum maintains an active and on-going dialogue with the bodies involved in the development of laws and regulations. On-going discussions around windfall taxation and permits to build new nuclear capacity in Finland can both have an effect on Fortum's operations especially in the long-run.

Fortum now owns and operates heat and power generation assets in Russia under operations of OAO Fortum. These businesses are currently largely subject to regulation, but the power market in particular is undergoing a process of deregulation and, as a result, the prices for electricity in Russia are expected to increase. The main fuel source for heat and power generation in Russia is gas. Gas prices are partially regulated, and there is a dependency on a limited number of suppliers. Changes in the regulation regarding gas prices and suppliers can affect the supply and price of gas. Furthermore, if deregulation of the gas and electricity markets is not aligned, the impact of price changes in either electricity or gas could be significant. Emerging markets countries are subject to greater political, economic and social uncertainties than countries with more developed institutional structures, and the risk of loss resulting from changes in law, economic and social upheaval and other factors may be substantial.

2.1.3 Legal and compliance risks

Fortum's operations are subject to rules and regulations set forth by the relevant authorities, exchanges, and other regulatory bodies in all markets which it operates on. 25% of the controls in the Fortum internal control framework mitigate compliance risks.

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

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

Compliance with the competition legislation is an important area for Fortum and it is managed through Fortum's Competition Compliance Programme. Fortum has also enhanced Compliance risk management by establishing a process to systematically identify and mitigate compliance risks linked to the operational risk framework.

2.2 Financial risks

Financial risk refers to the potential negative effects of market price movements, volume changes, liquidity events or counterpart events. A number of different methods, such as Value-at-Risk and Profit-at-Risk, are used throughout the Group to quantify financial risks. In particular, the potential impact of price and volume risks of electricity, weather, CO₂ and the main fuels are assessed taking into account their interdependencies. Stress-testing is carried out in order to assess the effects of extreme price movements on Fortum's earnings.

Risk taking is limited by risk mandates. Risk mandates include minimum EBITDA level for the Group that are set by the Board of Directors and exposure level mandates set by CEO like Volumetric limits, Value-at-Risk limits, Stop Loss limits and counterpart exposure limits.

⊕ For further information on hedge ratios, exposures, sensitivities and outstanding derivatives contracts, see Note 3 Financial risk management on page 126.

2.2.1 Electricity price risks

Fortum is exposed to electricity market price movements mainly through its power generation and customer sales businesses. The short-term factors affecting electricity prices on the Nordic market include hydrological conditions, temperature, CO₂ allowance prices, fuel prices, and the import/export situation. Fortum manages exposure to electricity price risk through the use of hedging strategies that are executed by the centralised Trading and Industrial Intelligence unit within set mandates. Hedges for electricity price risks consist of electricity derivatives contracts.

2.2.2 Volume risks

Power and heat generation, customer sales, and electricity distribution volumes are subject to changes in, for example, hydrological conditions and temperature. Although volume risks in power and heat generation are partly mitigated through generation flexibility, changes in volumes are closely monitored so that hedges can be adjusted accordingly.

2.2.3 CO₂ allowances price risks

The European Union has established an emissions trading scheme to limit the amount of CO₂ emissions. Part of Fortum's power and heat generation is subject to requirements of the trading scheme. Fortum manages its exposure to CO₂ allowance prices through the use of CO₂ forwards and by ensuring that the costs of allowances are taken into account during production planning.

2.2.4 Fuel price risks

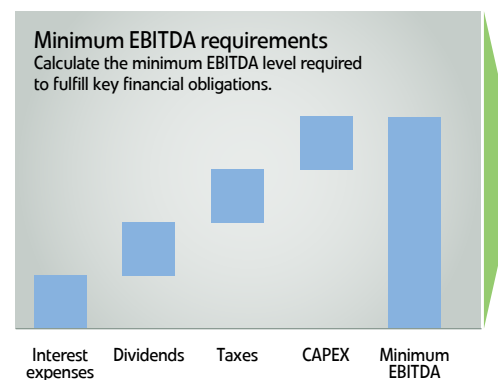
Heat and power generation requires the use of fuels that are purchased from global or local markets. The main fuels used by the Group are uranium, coal, natural gas, peat, oil, and various bio-fuels such as wood pellets. Exposure to fuel prices is to some extent limited because of Fortum's flexible generation possibilities, which allow for switching between different fuels according to prevailing market conditions, and in some cases, the fuel price risk can be transferred to the customer. The remaining exposure to fuel price risk is mitigated through fixed price purchases that cover forecasted

Fortum risk map

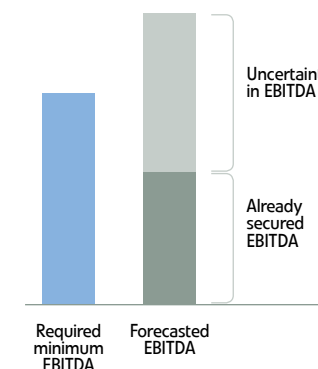


Corporate view on minimum EBITDA mandate

Financial obligations



Guidelines to risk management



consumption levels. Fixed price purchases can be either for physical deliveries or in the form of financial hedges.

2.2.5 Proprietary trading risks

Fortum engages in a certain level of trading for profit based on a high level of market knowledge. Fortum's proprietary trading activities are limited to standardised electricity, coal and CO₂ allowance contracts mainly traded through established markets such as Nord Pool, EEX and ICE.

Risks associated with trading activities are limited through strict management controls. Stop Loss mandates are set to limit the cumulative maximum loss during the year, and Value-at-Risk mandates limit the maximum risk taking during one day. All trading risks are monitored and reported on a daily basis.

2.2.6 Liquidity and refinancing risks

Fortum's business is capital intensive and the Group has a regular need to raise financing. Financing needs may also arise as a result of Fortum's growth strategy, such as the acquisition of OAO Fortum. This acquisition included a committed investment program which was partially prefunded with approximately EUR 1 billion of bank deposits earmarked for investments. Fortum has a diversified loan portfolio mainly consisting of long-term bond financing but also a variety of other long- and short-term financing facilities.

The global financial crisis during 2008 has emphasised the need for prudent management of liquidity and refinancing risk. Fortum manages these risks through a combination of cash positions and committed credit facility agreements with its core banks. The Group shall at all times have access to cash/marketable securities and unused committed credit facilities including overdrafts, to cover all loans maturing within the next twelve-month period. As of 31 December 2009, Fortum had EUR 890 million of liquid funds as well as access to EUR 2.9 billion of undrawn committed credit facilities. Debt maturities for 2010 amounted to EUR 857 million.

2.2.7 Interest rate risks

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

2.2.8 Currency risks

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

The Group's currency exposures are divided into transaction exposures (foreign exchange exposures relating to contracted cash flows, and balance sheet items where

changes in exchange rates will have an impact on earnings and cash flows) and translation exposure (foreign exchange exposure that arises when profits and balance sheets in foreign entities are consolidated in on Group level). Fortum Treasury policy states the principles and limits for managing currency exposures. For transaction risk the main principle is that all material exposures are hedged while translation exposures are not hedged or hedged selectively.

2.2.9 Counterpart risks

Fortum is exposed to counterpart risk whenever there is a contractual obligation with an external counterpart. In order to minimise counterpart risk, Fortum has well established routines and processes to identify, assess and control counterpart exposure. The Group Credit Guidelines regulates that no contractual obligation should be entered into without a proper, reasonable and viable credit check.

Corporate Credit Control is responsible for assuring stringent controls for all larger individual counterpart exposures. Creditworthiness is continuously monitored through the use of external sources to ensure that actions can be taken immediately when changes occur, and annual credit reviews are performed manually for all larger approved limits. Each Division is responsible for ensuring that exposures remain within approved limits. Mitigation of counterpart risk includes, for example, the use of collateral, managing payment terms and contract length, as well as pursuing netting agreements. Corporate Credit Control continuously monitors and reports counterpart exposures against the approved limits.

Fortum's counterpart portfolio is well-diversified over a wide-range of industries, private customers, small businesses and geographical regions. Although the Nordic countries account for most of the counterpart exposure, the exposure to Russia has increased as a result of OAO Fortum. Most of the exposures in Russia are related to deposits and guarantees from Russian banks which are earmarked for the ongoing investment program.

2.3 Operational risks

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

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

2.3.1 Risks at production facilities

Operational events at power and heat generation or electricity distribution facilities can lead to physical damages, business interruptions, and third-party liabilities. In Sweden, third-party liabilities from dam failures are strictly the plant owner's responsibility. Together with other hydropower producers, Fortum has a shared dam liability insurance program in place that covers Swedish dam failure liabilities up to SEK 8,000 million. Operational risks in production facilities are mitigated by continuous maintenance, condition monitoring, and other operational improvements.

Storms and other unexpected events can result in electricity outages that create costs in the form of repairs and compensations. Although outages are typically short, it is not possible to completely prevent long outages in exceptional circumstances. There is an extensive procedure in place to minimise the length and consequences of outages.

2.3.2 Nuclear risks

Fortum owns the Loviisa nuclear power plant, and has minority interests in one Finnish and two Swedish companies with nuclear plants. In the Loviisa power plant, assessment and improvement of nuclear safety is a continuous process which is performed under the supervision of the Radiation and Nuclear Safety Authority of Finland (STUK). In Finland and Sweden, third-party liability relating to nuclear accidents is strictly the plant operator's responsibility and must be covered by insurance. As the operator of the Loviisa power plant, Fortum has a statutory insurance policy of SDR (Special Drawing Rights) 175 million +20%, which means approximately EUR 230 million per nuclear incident. Similar insurance policies are in place for the operators where Fortum has a minority interest.

2.3.3 Environmental, health and safety risks

Operating power and heat generation and electricity distribution facilities involves the use, storage and transportation of fuels and materials that can have adverse effects on the environment. The risks involved with these activities and their supply chain are receiving increased attention due to the growing public awareness of sustainable development and the expectations on companies' responsible conduct. Operation and maintenance of the facilities exposes the personnel to potential safety risks. Environmental, health and safety (EHS) risks are regularly evaluated through internal and external audits and risk assessments, and corrective and preventive actions are launched when necessary. EHS related risks arising in investments are systematically evaluated in accordance with Fortum's Investment Evaluation and Approval Procedure.

2.3.4 IT and information security risks

Information security risks are managed centrally by the corporate security and IT functions. Business-specific risks are managed within the divisions and staff functions. Corporate policies define guidelines and set procedures for reducing risks and managing IT and other information security incidents. The main objective is to ensure high availability and fast recovery of IT systems.

The Fortum share and shareholders

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

Share key figures

EUR	2009	2008	2007
Earnings per share	1.48	1.74	1.74
Cash flow per share	2.55	2.26	1.88
Equity per share	9.04	8.96	9.43
Dividend per share	1.00 ¹⁾	1.00	1.35
Payout ratio, %	67.6 ¹⁾	57.5	77.6
Dividend yield, %	5.3 ¹⁾	6.6	4.4

1) Board of Directors' proposal for the Annual General Meeting 25 March 2010.

⊕ For full set of share key figures 1998–2009, see page 176.

1 Share price performance and volumes

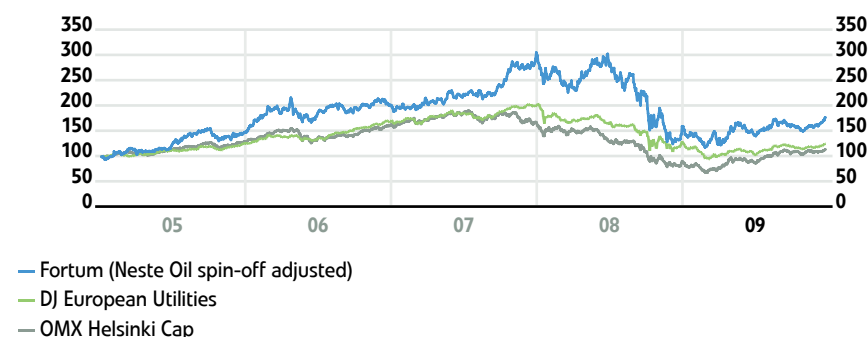
Fortum's share has outperformed its European utility peers during the last five years. Fortum's share price has appreciated approximately 77% during last five years, while Dow Jones European Utility Index has increased 25% and OMX Helsinki Cap index has increased 14%.

During 2009 Fortum's share price appreciated approximately 23%, while Dow Jones European Utility index decreased 1% and OMX Helsinki Cap index increased 31%.

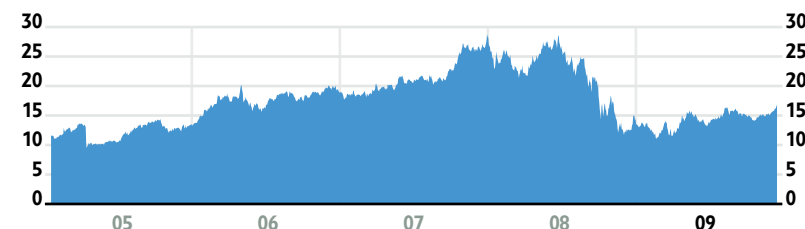
During 2009, a total of 580.9 million (2008: 628.2) Fortum Corporation shares, totalling EUR 9,244 million were traded. Fortum's market capitalisation, calculated using the closing quotation of the last trading day of the year, was EUR 16,852 million. The highest quotation of Fortum Corporation shares on NASDAQ OMX Helsinki in 2009 was EUR 19.20, the lowest EUR 12.60, and the volume weighted average quotation EUR 15.95. The closing quotation on the last trading day of the year was EUR 18.97 (2008: 15.23).

In addition to NASDAQ OMX Helsinki, Fortum shares were traded on several alternative market places, primarily at Chi-X Europe and Turquoise. In 2009, a total of 49.1 million Fortum Corporation shares were traded at Chi-X Europe and 17.8 million Fortum Corporation shares were traded at Turquoise.

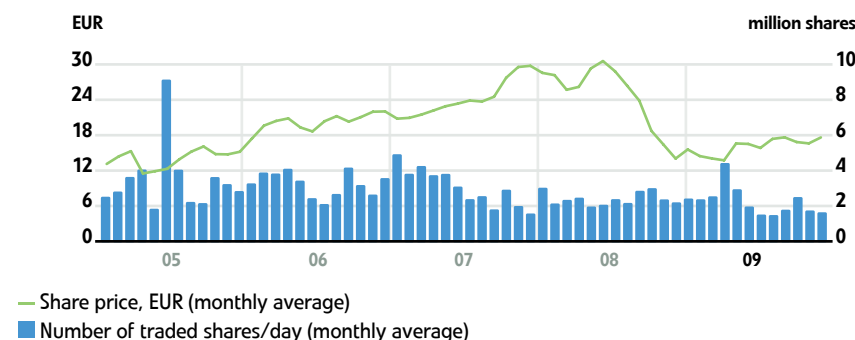
Share quotations 2005–2009, Index 100 = quote on 3 January 2005



Market capitalisation 2005–2009, EUR billion



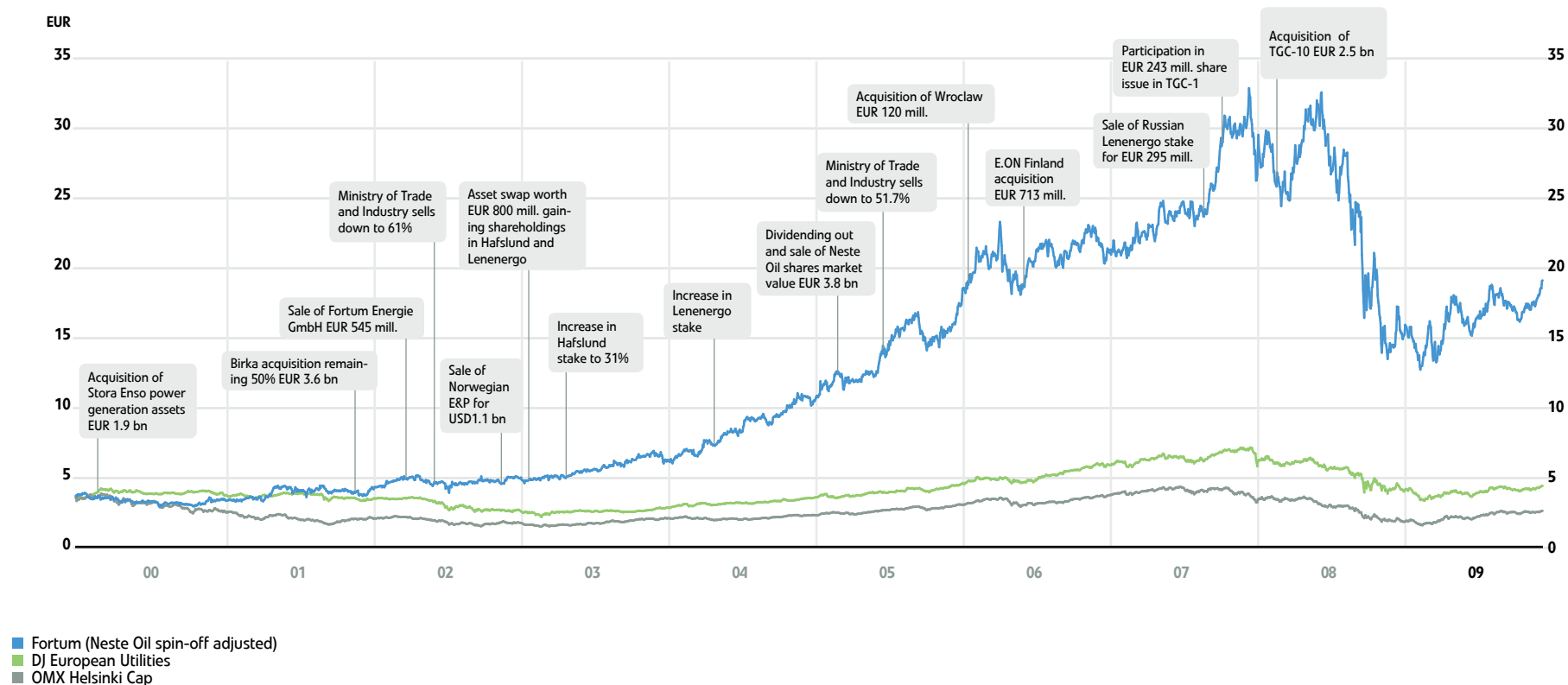
Share trading 2005–2009



2 Shareholder value

Fortum has continuously carried out structural and operational development according to its strategy. Since the year 2000 Fortum has made acquisitions totalling EUR 11 billion and divestments totalling EUR 7 billion. Since 2000 the share price has increased by approximately 420%.

Share price performance



3 Share capital

Fortum has one class of shares. By the end of 2009, a total of 888,367,045 shares had been issued. The nominal value of the share is EUR 3.40 and each share entitles the holder to one vote at the Annual General Meeting. All shares entitle holders to an equal dividend. At the end of 2009 Fortum Corporation's share capital, paid in its entirety and entered in the trade register, was EUR 3,046,185,953.00.

The share capital of Fortum Corporation increased by a total of EUR 2,478,481.00 (2008: 3,247,074.80). A total of 728,965 shares (2008: 955,022) subscribed on the basis of stock option schemes were entered into the trade register in 2009. No remaining unexercised options under the stock option schemes exist at year-end (2008: 728,965 shares).

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

Share capital 1998–2009

	Number of shares	Share capital, EUR
Fortum established on 7 February 1998	500,000	1,681,879
Rights issue in 1998	782,282,635	2,631,409,886
Employee issue in 1998	2,000,000	6,727,517
31 December 1998	784,782,635	2,639,819,282
31 December 1999	784,782,635	2,639,819,282
Script issue in 2000	-	28,441,677
Rights issue in 2000	60,825,940	206,808,196
31 December 2000	845,608,575	2,875,069,155
31 December 2001	845,608,575	2,875,069,155
Subscriptions with options in 2002		
- 1999 bond loan with warrants	148,380	504,492
- 1999 management share option scheme	3,000	10,200
31 December 2002	845,759,955	2,875,583,847
Subscriptions with options in 2003		
- 1999 bond loan with warrants	159,520	542,368
- 1999 management share option scheme	2,913,000	9,904,200
31 December 2003	848,832,475	2,886,030,415
Subscriptions with options in 2004		
- 1999 bond loan with warrants	4,560,730	15,506,482
- 1999 management share option scheme	7,154,000	24,323,600
- 2002 A share options scheme for key employees	6,536,700	22,224,780
31 December 2004	867,083,905	2,948,085,277

	Number of shares	Share capital, EUR
Subscriptions with options in 2005		
- 1999 bond loan with warrants	1,284,370	4,366,858
- 1999 management share option scheme	1,698,000	5,773,200
- 2001 A share options scheme	1,636,350	5,563,590
- 2002 A share options scheme	3,591,400	12,210,760
31 December 2005	875,294,025	2,975,999,685
Subscriptions with options in 2006		
- 2001 A share options scheme	3,026,200	10,289,080
- 2001 B share options scheme	5,360,133	18,224,452
- 2002 A share options scheme	516,800	1,757,120
- 2002 B share options scheme	4,856,488	16,512,059
Cancellation of own shares	-1,660,000	-
31 December 2006	887,393,646	3,022,782,396
Subscriptions with options in 2007		
- 2001 A share options scheme	274,920	934,728
- 2001 B share options scheme	1,339,867	4,555,548
- 2002 A share options scheme	122,100	415,140
- 2002 B share options scheme	3,462,525	11,772,585
Cancellation of own shares	-5,910,000	-
31 December 2007	886,683,058	3,040,460,397
Subscriptions with options in 2008		
- 2002 B share options scheme	955,022	3,247,075
31 December 2008	887,638,080	3,043,707,472
Subscriptions with options in 2009		
- 2002 B share options scheme	728,965	2,478,481
31 December 2009	888,367,045	3,046,185,953

4 Shareholders

At the beginning of 2009, the Finnish State owned 50.80% of the company's shares. After the changes in amount of shares during 2009, increase in amount of shares due to the share subscriptions under the stock option schemes for employees, the Finnish State owned 50.76% of the Company's shares at the end of the year. The Finnish Parliament has authorised the Government to reduce the Finnish State's holding in Fortum Corporation to no less than 50.1% of the share capital and voting rights.

The proportion of nominee registrations and direct foreign shareholders decreased to 31.0% (2008: 35.2%).

Shareholders 31 December 2009

Shareholder	No. of shares	Holding, %
Finnish State	450,932,988	50.76
Ilmarinen Mutual Pension Insurance Company	16,830,664	1.89
The Social Insurance Institution of Finland, KELA	7,195,896	0.81
Varma Mutual Pension Insurance Company	6,250,445	0.70
The City of Kurikka	6,203,500	0.70
The State Pension Fund Finland	5,478,500	0.62
OP-Delta Fund	3,428,605	0.38
Mandatum Life Insurance Company Limited	1,930,235	0.22
The State Pension Fund Norway	1,860,571	0.21
Svenska Handelsbanken, Finland	1,760,988	0.20
Nominee registrations	268,551,000	30.23
Other shareholders in total	117,943,653	13.28
Total number of shares	888,367,045	100.00

By shareholder category	% of total amount of shares
Finnish shareholders	
Corporations	1.40
Financial and insurance institutions	2.70
General government	56.80
Non-profit organisations	1.40
Households	6.70
Non-Finnish shareholders	31.00
Total	100.0

Breakdown of share ownership 31 December 2009

By number of shares owned	No. of shareholders	% of shareholders	No. of shares	% of total amount of shares
1-100	19,460	22.45	1,207,382	0.14
101-500	36,060	41.60	9,650,676	1.09
501-1,000	16,669	19.23	11,835,574	1.33
1,001-10,000	13,630	15.72	34,332,796	3.86
10,001-100,000	751	0.87	18,705,415	2.11
100,001-1,000,000	94	0.11	30,235,280	3.40
1,000,001-10,000,000	17	0.02	46,007,534	5.18
over 10,000,000	2	0.00	467,763,652	52.65
	86,683	100.00	619,738,309	69.76
Unregistered/uncleared transactions on 31 December			77,736	0.01
Nominee registrations			268,551,000	30.23
Total			888,367,045	100.00

5 Management interests 31 December 2009

At the end of 2009, the President and CEO and other members of the Fortum Management Team owned 185,345 shares (2008: 354,238), representing approximately 0.02% of the total shares in the company.

ⓘ A full description of Fortum's equity incentive schemes is shown in Note 29 Employee bonus system, personnel fund and incentive schemes together with details on the President and CEO and other members of the Fortum Management Team's shareholdings and interests in equity incentive schemes on page 157.

6 Authorisations from the Annual General Meeting 2009

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

7 Dividend policy

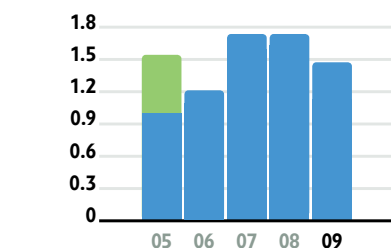
Fortum Corporation's dividend policy states that the company aims to pay a dividend which corresponds to an average payout ratio of 50% to 60%.

8 Dividend distribution proposal

The parent company's distributable equity as of 31 December 2009 amounted to EUR 4,052 million. After the end of the financial period there have been no material changes in the financial position of the Company.

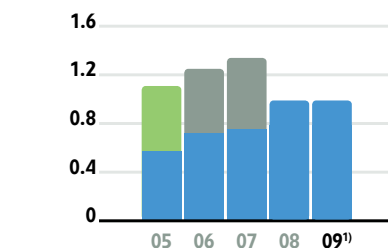
The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a cash dividend of EUR 1.00 per share for 2009, totalling EUR 888 million based on the number of registered shares as of 2 February 2010. The Annual General Meeting will be held on 25 March 2010 at 1:00 pm at Finlandia Hall in Helsinki.

Earnings per share, EUR



Discontinued oil operations

Dividend per share, EUR



Additional dividend, 2006 and 2007
Discontinued oil operations

1) Board of Directors' proposal for the Annual General Meeting in March 2010.

Fortum's activities in capital markets during 2009

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

In 2009 Fortum conducted approximately 200 individual and group meetings with professional equity investors, whilst maintaining regular contact with equity research analysts at investment banks and brokerage firms. In addition, site visits were arranged for members of the investment community. During the year, IR and senior management gave approximately 15 presentations at investor conferences in Scandinavia, the United Kingdom and North America.

Consolidated financial statements

Consolidated income statement

EUR million	Note	2009	2008
Sales	5	5,435	5,636
Other income	9	34	230
Materials and services	10	-2,027	-2,117
Employee benefit costs	12	-491	-587
Depreciation, amortisation and impairment charges	5, 13	-510	-515
Other expenses	11	-659	-684
Operating profit	5	1,782	1,963
Share of profit of associates and joint ventures	5, 22	21	126
Interest expense	14	-241	-351
Interest income	14	98	143
Fair value gains and losses on financial instruments	6, 14	-1	-11
Other financial expenses - net	14	-23	-20
Finance costs - net	14	-167	-239
Profit before income tax		1,636	1,850
Income tax expense	15	-285	-254
Profit for the period		1,351	1,596
Attributable to:			
Owners of the parent		1,312	1,542
Non-controlling interests		39	54
		1,351	1,596
Earnings per share (in EUR per share)			
Basic	16	1.48	1.74
Diluted		1.48	1.74

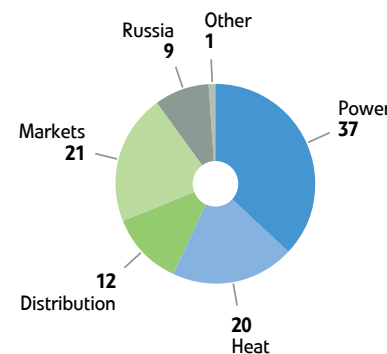
EUR million	2009	2008
Comparable operating profit	1,888	1,845
Non-recurring items (sales gains)	29	85
Changes in fair values of derivatives hedging future cash flow	-76	52
Nuclear fund adjustment	-59	-19
Other items effecting comparability	-135	33
Operating profit	1,782	1,963

Lower contribution from Hafslund ASA, EUR 52 million of the decrease.

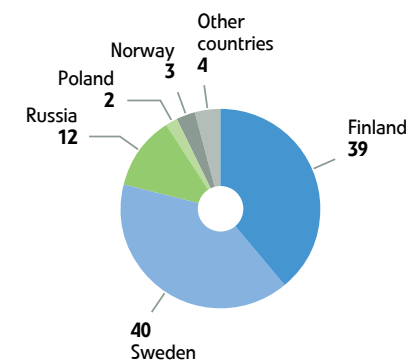
Decrease mainly due to lower average interest rates 3.7% (2008: 5.3%) for debt including derivatives.

Higher tax rate according to income statement in 2009 due to one-time effect caused by decreased tax rates in Sweden and Russia amounting to EUR 113 million in 2008.

Sales by segment, %



Sales by country, %



Consolidated statement of comprehensive income

EUR million	2009	2008
Profit for the period	1,351	1,596
Other comprehensive income:		
Cash flow hedges		
Fair value gains/losses in the period	-195	453
Transfers to income statement	-218	160
Transfers to inventory/fixed assets	-4	-4
Tax effect	108	-168
Net investment hedges		
Fair value gains/losses in the period	-25	-
Tax effect	6	-
Available for sale financial assets		
Fair value losses in the period	0	-1
Exchange differences on translating foreign operations	21	-621
Share of other comprehensive income of associates	-37	-628
Other changes	1	1
Other comprehensive income for the period, net of tax	-343	-808
Total comprehensive income for the year	1,008	788
Total comprehensive income attributable to:		
Owners of the parent	971	797
Non-controlling interests	37	-9
	1,008	788

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

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

Translation differences from translation of foreign entities, mainly in SEK, NOK and RUB. Mainly fair value change in Hafslund ASA's shareholding in REC incl. translation differences, EUR -37 million (2008: -667).

Consolidated balance sheet

EUR million	Note	31 Dec 2009	31 Dec 2008
ASSETS			
Non-current assets			
Intangible assets	20	391	395
Property, plant and equipment	21	12,855	12,138
Participations in associates and joint ventures	22	2,188	2,112
Share in State Nuclear Waste Management Fund	33	570	566
Pension assets	35	59	59
Other non-current assets	23	69	58
Deferred tax assets	32	47	2
Derivative financial instruments	3	195	445
Long-term interest-bearing receivables	24	918	742
Total non-current assets		17,292	16,517
Current assets			
Inventories	25	447	444
Derivative financial instruments	3	182	761
Trade and other receivables	26	1,030	1,235
Bank deposits		397	588
Cash and cash equivalents		493	733
Liquid funds	27	890	1,321
Total current assets		2,549	3,761
Total assets		19,841	20,278

EUR million	Note	31 Dec 2009	31 Dec 2008
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	3,046	3,044
Share premium		73	73
Retained earnings		4,762	4,312
Other equity components		153	525
Total		8,034	7,954
Non-controlling interests	30	457	457
Total equity		8,491	8,411
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	31	6,002	6,520
Derivative financial instruments	3	191	120
Deferred tax liabilities	32	1,750	1,851
Nuclear provisions	33	570	566
Other provisions	34	209	199
Pension obligations	35	23	51
Other non-current liabilities	36	472	470
Total non-current liabilities		9,217	9,777
Current liabilities			
Interest-bearing liabilities	31	857	980
Derivative financial instruments	3	276	126
Trade and other payables	37	1,000	984
Total current liabilities		2,133	2,090
Total liabilities		11,350	11,867
Total equity and liabilities		19,841	20,278

Consolidated statement of changes in total equity

		Share capital	Share premium	Retained earnings		Other equity components			Owners of the parent	Non-controlling interests	Total equity
				Retained earnings and other funds	Translation of foreign operations	Cash flow hedges	Other OCI items	OCI items associated companies			
EUR million	Note										
Total equity 31 December 2008		3,044	73	4,888	−576	321	36	168	7,954	457	8,411
Profit for the period				1,312					1,312	39	1,351
Translation differences					9	−4		28	33	12	45
Other comprehensive income				6		−296	−19	−65	−374	−14	−388
Total comprehensive income for the period				1,318	9	−300	−19	−37	971	37	1,008
Cash dividend	17			−888					−888		−888
Dividends to non-controlling interests									0	−19	−19
Changes due to business combinations	7			−5					−5	−18	−23
Stock options exercised	28	2		16			−16		2		2
Total equity 31 December 2009		3,046	73	5,329	−567	21	1	131	8,034	457	8,491
Total equity 31 December 2007		3,040	73	4,552	−21	−120	35	800	8,359	292	8,651
Profit for the period				1,542					1,542	54	1,596
Translation differences					−555			−148	−703	−66	−769
Other comprehensive income						441	1	−484	−42	3	−39
Total comprehensive income				1,542	−555	441	1	−632	797	−9	788
Cash dividend	17			−1,198					−1,198		−1,198
Dividends to non-controlling interests									0	−18	−18
Changes due to business combinations	7			−8					−8	192	184
Stock options exercised	28	4							4		4
Total equity 31 December 2008		3,044	73	4,888	−576	321	36	168	7,954	457	8,411

Translation differences ¹⁾

Translation differences impacted equity attributable to owners of the parent with EUR 33 million during 2009 (2008: -703) including net effect from SEK, NOK and RUB amounting to EUR 27 million in 2009 (2008: -680). Part of the translation differences is arising from the NOK effect in fair valuation of Hafslund's REC shares, EUR 22 million (2008: -148), which is shown together with the change in fair value in OCI items associated companies.

Cash flow hedges

The impact on equity attributable to owners of the parent from fair valuation of cash flow hedges, EUR -296 million (2008: 441), mainly relates to cash flow hedges hedging electricity price. When electricity price is higher than the hedging price, the impact on equity is negative.

OCI items associated companies

Other comprehensive income from associated companies EUR -65 million (2008: -484), mainly relates to the change in share price of Hafslund's REC shares during 2009 (2008) excluding exchange rate differences.

➤ See also Note 22 Participations in associated companies and joint ventures on page 152.

Non-controlling interests

The main changes to non-controlling interests in equity are translation differences EUR 12 million (2008: -66), arising from RUB and SEK, changes due to dividend distributions to non-controlling interests EUR -19 million (2008: -18) and also changes through business combinations which relate to the non-controlling interests in OAO Fortum.

1) 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 8 Exchange rates on page 141.

Consolidated cash flow statement

EUR million	Note	2009	2008
Cash flow from operating activities			
Net profit for the period		1,351	1,596
Adjustments:			
Income tax expenses		285	254
Finance costs-net		167	239
Share of profit of associates and joint ventures		-21	-126
Depreciation, amortisation and impairment charges		510	515
Operating profit before depreciations (EBITDA)		2,292	2,478
Non-cash flow items and divesting activities ¹⁾		46	-275
Interest received		106	135
Interest paid		-291	-352
Dividends received		33	51
Other financial items and realised foreign exchange gains and losses ²⁾		298	399
Taxes		-239	-332
Funds from operations		2,245	2,104
Increase in interest-free receivables		79	-48
Increase/decrease in inventories		1	-132
Increase in interest-free liabilities		-61	78
Change in working capital		19	-102
Total net cash from operating activities		2,264	2,002
Cash flow from investing activities			
Capital expenditures ³⁾	5,20,21	-845	-1,018
Acquisition of subsidiaries, net of cash acquired	7	-27	-1,210
Acquisition of associates ⁴⁾	22	-58	-32
Acquisition of other long-term investments		-2	-1
Proceeds from sales of fixed assets		48	37
Proceeds from sales of subsidiaries, net of cash disposed	7	11	44
Proceeds from sales of associates	22	2	34
Proceeds from sales of other non-current assets		1	0
Change in interest-bearing receivables		-104	-136
Total net cash used in investing activities		-974	-2,282
Cash flow before financing activities		1,290	-280

EUR million	Note	2009	2008
Cash flow from financing activities			
Proceeds from long-term liabilities		2,168	5,550
Payments of long-term liabilities		-2,711	-3,479
Change in short-term liabilities		-215	551
Proceeds from stock options exercised	28	2	4
Dividends paid to the owners of the parent	17	-888	-1,198
Other financing items		-27	-108
Total net cash used in financing activities		-1,671	1,320
Total net increase (+)/decrease (-) in liquid funds		-381	1,040
Liquid funds at the beginning of the year		1,321	427
Foreign exchange differences in liquid funds		-50	-146
Liquid funds at the end of the year	27	890	1,321

1) Non-cash flow items includes mainly adjustments for fair value gains and losses on derivatives not qualifying for hedge accounting, nuclear related items and changes in provision. Divesting activities includes reversals of sales gains and losses included in EBITDA.

2) Includes realised foreign exchange gains amounting to EUR 298 million (2008: 405), which mainly relates to financing of Fortum's Swedish subsidiaries and the fact that the Group's main financing currency is EUR.

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

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

Change in interest-bearing net debt

EUR million	2009	2008
Net debt 1 January	6,179	4,466
Foreign exchange rate differences	144	-203
EBITDA	2,292	2,478
Paid net financial costs, taxes and adjustments for non-cash and divestment items	-47	-374
Change in working capital	19	-102
Capital expenditures	-845	-1,018
Acquisitions	-87	-1,243
Divestments	62	115
Change in interest-bearing receivables	-104	-136
Dividends	-888	-1,198
Other financing activities	-25	-103
Net cash flow (- increase in net debt)	377	-1,581
Loans in acquired companies	-	272
Fair value change of bonds and amortised cost valuation	23	63
Net debt 31 December	5,969	6,179

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1 Accounting policies

1.1 Principal activities

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

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

These financial statements were approved by the Board of Directors on 2 February 2010.

1.2 Basis of preparation

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

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

1.2.1 Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting principles. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2 Critical accounting estimates and judgements on page 125.

1.2.2 New Standards and amendments and interpretations to existing standards

Fortum has adopted the following new or amended standards and interpretations to existing standards on 1 January 2009:

- IFRS 2 (amendment) *Share-based payment* (effective 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. Fortum has adopted IFRS 2 (amendment) from 1 January 2009. The amendment has no impact on Fortum's reported result or financial position.
- IFRS 7 (amendment) *Financial instruments – disclosures* (effective 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, adoption of the standard has no impact on Fortum's reported result or financial position.
- See Note 19 *Financial assets and liabilities by fair value hierarchy* on page 149.
- IAS 1 (revised) *Presentation of financial statements* (effective 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been reclassified so that it also is in conformity with the revised standard. The adoption of the standard has no impact on Fortum's reported result or financial position.
- IAS 23 (amendment) *Borrowing costs* (effective 1 January 2009). The revised standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of a cost of the asset. The option of immediately expensing those borrowing costs is removed. The adoption of the revised IAS 23 slightly changed Fortum's accounting policy for capitalising borrowing costs as previously only borrowing costs meeting determined criteria were capitalised. Fortum has applied the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after 1 January 2009. The change did not have a material impact on Fortum's reported result or financial position.
- IFRIC 16 *Hedges of a net investment in a foreign operation* (to be adopted for annual periods beginning on or after 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedge. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency and hedging instruments can be held anywhere in the group. The interpretation did not

have a material impact on Fortum's reported result or financial position.

- IFRIC 18 *Transfer of assets from customers* (effective for transfers received on or after 1 July 2009). IFRIC 18 clarifies revenue recognition for agreements in which an entity receives cash from a customer in order to construct or acquire an item of property, plant and equipment. The property, plant and equipment must be used to connect the customer to a network and/or provide the customer with ongoing access. Fortum's accounting treatment for connection fees is already in line with IFRIC 18 and IFRIC 18 did not have an impact on Fortum's result or financial position.
- Fortum has early adopted IFRS 8 *Operating segments* in 2008.

Fortum will apply following new or amended standards and interpretations to existing standards on 1 January 2010 or later and has not early adopted these changes:

- IFRS 2 (amendments) *Group cash-settled and share-based payment transactions* (effective for annual periods beginning on or after 1 January 2010). In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on Fortum's financial statements. The amendment is still subject to endorsement by the EU.
- IFRS 3 (revised) *Business combinations* (effective for annual periods beginning on or after 1 July 2009.) The amendments will mainly impact the accounting of transaction costs, step acquisitions, goodwill and non-controlling interest (previously 'minority interest') and contingent consideration. Fortum will apply the revised standard to all business combinations from 1 January 2010.
- IAS 27 (amended) *Consolidated and separate financial statements* (to be adopted for annual periods beginning on 1 July 2009). The amendments to IAS 27 require the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. Fortum will apply amended standard prospectively to transactions with non-controlling interests from 1 January 2010.
- IAS 17 (amendment) *Leases* (effective for annual periods beginning on or after 1 January 2010). The amendment is part of the IASB's annual improvements project published in April 2009. The requirements of IAS 17 Leases regarding the classification of leases of land were amended. Prior to amendment, IAS 17 generally required leases of land with an indefinite useful life to be classified as operating leases. Following the amendments, leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of IAS 17. Fortum is still investigating the effect of the amendment to its financial statements. The amendment is still subject to endorsement by the EU.
- IAS 24 *Related party disclosures* (effective for annual periods beginning on or after 1 January 2011). The amendments to IAS 24 simplify the disclosure requirements for entities that are controlled by a government and clarify the definition of a related party. The revised IAS 24 provides an exemption from the disclosure requirements for government related entities, i.e. where another entity is a related party because the same government has control, joint control or significant influence over both

entities. The revised standard is not going to have any impact on Fortum's disclosures. The amendment is still subject to endorsement by the EU.

- IAS 39 (Amendment) *Financial instruments: recognition and measurement* (effective retrospectively for annual periods beginning on or after 1 July 2009). The amendment gives additional guidance on the designation of a hedged item. The amendment is not expected to have a material impact on the Fortum's result or financial position.
- IFRIC 17 *Distributions of non-cash assets to owners* (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. It also states that the dividend payable shall be measured at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed is recognised in profit or loss. The interpretation is not expected to have a material impact on the Fortum's result or financial position.
- *Annual improvements to IFRSs were issued in April 2009*. The improvements primarily remove inconsistencies and clarify wording of standards. There are separate transitional provisions for each standard. Amendments are not expected to have an impact on Fortum's financial statements. The annual improvements are still subject to endorsement by the EU.
- IFRS 9 *Financial instruments* (effective for annual periods beginning on or after 1 January 2013). The standard has new requirements for the classification and measurement of financial assets. New requirements are expected to be added to the standard and it will eventually replace IAS 39 and IFRS 7. Fortum will apply the new standard in due course.

1.2.3 Classification of current and non-current assets and liabilities

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

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

1.3 Consolidation

1.3.1 Subsidiaries

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

➤ The Fortum Group subsidiaries are disclosed in Note 45 Subsidiaries by segment on 31 December 2009 on page 172.

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

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

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

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

1.3.2 Associates and joint ventures

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

The Group's share of its associates or joint ventures post-acquisition profits or losses after tax and the expenses related to the adjustments to the fair values of the assets and liabilities assumed are recognised in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. The Group's share of post-acquisition adjustments to associates or joint

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ventures equity that have not been recognised in the associates or joint ventures income statement, is recognised directly in Group's shareholder's equity and against the carrying amount of the investment.

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

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

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

⊕ *For further information regarding the shareholdings in these electricity production companies, see Note 22 Participations in associated companies and joint ventures on page 152 and Note 43 Related party disclosures on page 170.*

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

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

Hafslund ASA owns shares in a listed company Renewable Energy Corporation (REC). Hafslund has classified the shareholding as financial assets at fair value through profit and loss until 19 November 2008 when Hafslund changed the accounting treatment to available for sale financial assets with fair value changes entered directly through equity. When accounting for share of profits in Hafslund, Fortum has since 2006 reclassified Hafslund's accounting treatment to available for sale financial assets with fair value changes entered directly through equity. If Hafslund divests or impairs its shareholding in REC, Fortum will adjust any occurring sales gains or losses and impairment charges due to different historical accounting treatment. Since REC is listed in the Oslo stock exchange, Fortum is accounting for the fair value changes in REC based on the share price in Oslo stock and the number of shares owned by Hafslund at each closing date. If Hafslund publicly announces a divestment of shares in REC, Fortum accounts for any gains or losses of this transaction as soon as information is available.

Regarding Fortum's share of profits in TGC-1, the share of profit is accounted for based on latest available IFRS interim financial statement.

⊕ *Regarding accounting for Fortum's shareholding in Hafslund ASA and TGC-1, see Note 22 Participations in associated companies and joint ventures on page 152.*

1.3.3 Non-controlling interests

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

1.4 Segment reporting

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

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

- Power – comprises power generation and sales mainly in the Nordic countries as well as operation and maintenance services in the Nordic area and selected international markets. Power segment sells its production to Nord Pool.
- Heat – comprises heat generation and sales in the Nordic countries and other parts of the Baltic Rim. The segment also generates power in the combined heat and power plants (CHP) and sells it to end-customers mainly by long-term contracts, as well as to Nord Pool.
- Distribution – owns and operates distribution and regional networks and distributes electricity to customers in Sweden, Finland, Norway and Estonia.
- Markets – focuses on the retail sale of electricity to private and business customers as well as to other electricity retailers in Sweden, Finland and Norway. The Markets segment buys its electricity through Nord Pool.
- Russia – comprises power and heat generation and sales in Russia. It includes mainly the Russian subsidiary OAO Fortum, which is consolidated from 31 March 2008, and the shareholding in the associated company TGC-1.
- Other – mainly the shareholding in the associated company Hafslund ASA and corporate center including the Fortum Group shared service centers. The shared service centers charge the companies according to service level agreements.

⊕ *For further information about the reporting segments, see Note 5 Segment reporting on page 134.*

1.5 Discontinued operations and assets held for sale

Discontinued operations represent a separate major line of business that either have been disposed of or are classified as held for sale. Assets and liabilities attributable to

the discontinued operations must be clearly distinguishable from the other consolidated entities in terms of their operations and cash flows. In addition, the reporting entity must not have any significant continuing involvement in the operations classified as a discontinued operation.

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

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

➤ *Oil operations have been presented as discontinued operations for 2004 and 2005, see Financial key figures on page 174.*

1.6 Foreign currency transactions and translation

1.6.1 Functional and presentation currency

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

1.6.2 Transactions and balances

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

1.6.3 Group companies

The income statements of subsidiaries, whose measurement and reporting currencies are not euros, are translated into the Group reporting currency using the average exchange rates for the year based on the month-end exchange rates, whereas the balance sheets of such subsidiaries are translated using the exchange rates on the balance sheet date. On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency

instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group deems all cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS, i.e. 1 January 2004.

➤ *Exchange rates used to translate reporting currencies into euros in the Consolidated Financial Statements are disclosed in Note 8 Exchange rates on page 141.*

1.6.4 Associates and joint ventures

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

1.7 Revenue recognition

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

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

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

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

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

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

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

credited or charged over a number of years in the future to the customer using the electricity connection at that time. No retroactive credit or charge can be made.

1.7.2 Connection fees

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

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

1.7.3 Contract revenue

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

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

1.7.4 Other income

Revenue from activities outside normal operations is reported in Other income. This includes recurring items such as rental income and non-recurring items such as gains from sales of shares, property, plant and equipment, emission rights etc. Other income also includes the changes in the fair value of any derivative instruments that do not qualify for hedge accounting which are recognised immediately in the income statement.

1.8 Government grants

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

and equipment are deducted from the acquisition cost of the asset and are recognised as income by reducing the depreciation charge of the asset they relate to.

1.9 Emission allowances

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

1.10 Borrowing costs

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

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

1.11 Research and development costs

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

1.12 Property, plant and equipment

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

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

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

➤ See also section 1.24.2 Asset retirement obligations on page 123.

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

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

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

1.12.1 Jointly controlled assets

Fortum owns, through its subsidiary Fortum Power and Heat Oy, the coal condensing power plant Meri-Pori in Finland. Teollisuuden Voima Oyj (TVO) has the contractual right to participate in the plant with 45.55%. The capacity and production can be divided between Fortum and TVO. Each owner can decide when and how much capacity to produce. Both Fortum and TVO purchase fuel and CO₂ rights independently. Since both Fortum and TVO have control, including related risks and rewards, of their share of the power plant, Meri-Pori is accounted for as a jointly controlled asset.

Fortum is accounting for the part of the investment that corresponds to the investment Fortum has made, i.e. 55.55%. At present Fortum leases out its part of the Meri-Pori power plant. The lease agreement has been classified as an operating lease.

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

➤ For further information regarding Fortum's shareholding in TVO, see Note 22 Participations in associated companies and joint ventures on page 152.

1.13 Intangible assets

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

1.13.1 Computer software

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

1.13.2 Trademarks and licences

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

1.13.3 Contractual customer relationships

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

1.13.4 Goodwill

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

1.14 Impairment of non-financial assets

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

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

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

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

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

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

1.15 Financial assets

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

1.15.1 Financial assets at fair value through profit or loss

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

1.15.2 Loans and receivables

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

1.15.3 Available-for-sale financial assets

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

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

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

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

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

1.16 Trade receivables

Trade receivables are recorded at their fair value. A provision for impairment of trade receivables is established when there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered

as indicators that the receivable is impaired. The amount of the impairment charge is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

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

1.17 Liquid funds

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

1.18 Treasury shares

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

1.19 Borrowings

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

1.20 Leases

1.20.1 Finance leases

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

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

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

1.20.2 Operating leases

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

Payments received under operating leases where the Group leases out fixed assets are recognised as other income in the income statement. Fortum has leased out its share of the coal condensing power plant Meri-Pori in Finland until June 2010. (See also Jointly controlled assets above.) The lease agreement has been classified as an operating lease.

1.21 Inventories

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

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

1.22 Income taxes

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets are set off against deferred tax liabilities if they relate to income taxes levied by the same taxation authority.

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

1.23 Employee benefits

1.23.1 Pension obligations

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

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

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

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

1.23.2 Share-based compensation

The Group operates long-term management performance share arrangements. The potential reward of the performance share arrangement is based on the performance of the Group, its divisions and the individual participant as well as appreciation of the Fortum share. The potential reward of the performance share arrangement is treated as cash settled arrangement which is recognised as an expense during the vesting period with a corresponding increase in the liabilities. The fair value of the potential reward of outstanding share rights is measured based on the market value of the Fortum share initially when the share participation is defined and at each closing

date after that. Estimated departures are taken into account when determining the fair value of the potential reward. The changes of the fair value of the potential reward are accrued over the remaining vesting period. A provision is recorded on the social charges related to the arrangement payable by the employer.

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

1.23.3 Stock options

Stock options are measured at fair value at the time they were granted and they are expensed on a straight-line basis in the income statement over the period from the date they were granted to commencement of the right to exercise them. The expense determined at the moment of granting the options is based on an estimate of the number of options that will vest at the time of commencement of the right to exercise them. The fair value of the options is determined on the basis of the Black-Scholes or Binomial pricing model. Estimates of the final amount of options are updated on each closing date if applicable and the effects of changes in estimates are recorded in the income statement. Social charges related to the options payable by the employer are entered as an expense to the income statement and as a provision in the balance sheet in the accounting period during which the options are granted. This provision is measured based on the fair value of the options, and the amount of the provision is adjusted to reflect the changes in the Fortum share price. When stock options are exercised, the cash payments received on the basis of the share subscriptions (adjusted for any transaction expenses) are recognised in equity.

1.24 Provisions

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

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

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

1.24.1 Environmental provisions

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

1.24.2 Asset retirement obligations

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

1.24.3 Restructuring provisions

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

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

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

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

The provision for spent fuel covers the future disposal costs for fuel used until the end of the accounting period. Costs for disposal of spent fuel are expensed during the operating time based on fuel usage. The impact of the possible changes in the estimated future cash flow for related costs is recognised immediately in the income statement

based on the accumulated amount of fuel used until the end of the accounting period. The related interest costs due to unwinding of the provision, for the period during which the spent fuel provision has been accumulated and present point in time, are also recognised immediately in the income statement.

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

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

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

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

➔ For more information regarding nuclear related assets and liabilities, see Note 33 Nuclear related assets and liabilities on page 163.

1.26 Contingent liabilities

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

1.27 Earnings per share

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

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

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

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

1.28 Dividends

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

1.29 Accounting for derivative financial instruments and hedging activities

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

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

1.29.1 Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts

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

1.29.2 Fair value hedge

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

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

1.29.3 Net investment hedging in foreign operations

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

1.29.4 Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in other income in the income statement.

1.30 Fair value estimation

Fair value measurements are classified using a fair value hierarchy i.e. Level 1, Level 2 and Level 3 that reflects the significance of the inputs used in making the measurements. Financial instruments that are measured in the balance sheet at fair value are presented according to fair value measurement hierarchy in the Note 19 Financial assets and liabilities by fair value hierarchy on page 149.

1.30.1 Fair Values under Level 1 measurement hierarchy

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

1.30.2 Fair Values under Level 2 measurement hierarchy

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

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

1.30.3 Fair Values under Level 3 measurement hierarchy

Fair valuation of electricity derivatives maturing over six years and are not standard Nord Pool products are based on prices collected from reliable market participants.

1.30.4 Other measurements

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

2 Critical accounting estimates and judgements

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

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

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

2.2 Impairment of property, plant and equipment and goodwill

The Group has significant carrying values in property, plant and equipment as well as goodwill which are tested for impairment according to the accounting policy stated in Note 1 Accounting policies. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations are based on estimated future cash flows. Preparation of these estimates requires management to make assumptions relating to future expectations. Key assumptions used in goodwill impairment testing are discussed in Note 20 Intangible assets on page 150.

The Group has not recognised any impairment losses in 2009 based on impairment testing done in late 2009. Impairment losses recognised during 2009 relating to specific items in property, plant and equipment are presented in Note 5 Segment information on page 134 and in Note 21 Property, plant and equipment on page 150.

The Group has considered the sensitivity of the testing to changes in key assumptions. When doing this any consequential effect of the change on the other variables has also been considered. The calculations are most sensitive to changes in estimated future operating profit levels and discount rate. If the revised estimated operating profit before depreciation on 31 December 2009 was 10% lower than management's estimates or pre-tax discount rate applied to the discounted cash flows was 10% higher than management's estimates, the Group would not have recognised impairment losses for property plant and equipment or goodwill.

2.3 Deferred and income taxes

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

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

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

If the actual final outcome (regarding tax audits) would differ negatively from management's estimates with 10%, the Group would need to increase the income tax liability by EUR 1 million.

2.4 Liabilities related to nuclear production

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

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

➤ See Note 33 Nuclear related assets and liabilities on page 163.

2.5 Pension obligations

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

➤ Assumptions used and sensitivity analysis for changes in major assumptions are presented in Note 35 Pension obligations on page 165.

3 Financial Risk Management

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

➤ See Risk management on page 98.

3.1 Financial risks

Fortum defines financial risk as the negative effects of market price movements, volume changes, liquidity events or counterpart events. A number of different methods, such as Value-at-Risk and Profit-at-Risk, are used throughout Fortum to quantify financial risks. In particular, the potential impact of price and volume risks of electricity, weather, CO₂ and main fuels are assessed taking into account their interdependencies.

Stress-testing is carried out in order to assess the effects of extreme electricity price movements on Fortum's earnings.

Financial risk taking in business units aims to capture potential upside by optimising hedging or by trading in the markets. Risk taking is limited by risk mandates. During 2009 risk mandates include minimum EBIT levels for the business units that were set by the President and CEO and from 1 January 2010 the Group minimum EBITDA mandate is approved by the Board of Directors. Volumetric limits, Value-at-Risk limits, Stop-Loss limits and counterpart exposure limits are also in place.

3.2 Electricity price risks

Strategies for hedging the electricity price are developed and executed by the business units within set mandates approved by the Fortum Management Team. In the Nordic markets, the hedging strategies are executed by entering into electricity derivatives contracts. In Russia, there is currently no existing financial market for electricity as the majority of electricity sales are regulated. Hedging strategies for Russia will be developed in line with the deregulation of the electricity market. Risk in the hedging strategies and their execution are continuously evaluated in accordance with models approved by the CRO and mandates approved by CEO.

Fortum's sensitivity to electricity market price is dependent on the hedge level for a given time period. The hedge ratio on 31 December 2009 was approximately 70% for the year 2010 and 40% for 2011. Assuming no changes in generation volumes, hedge ratios or cost structure a 1 EUR/MWh change in the market price of electricity would affect Fortum's 2010 profit before income tax by approximately EUR 15 million and 2011 EUR 30 million. Volume used in this sensitivity analysis is 50 TWh which includes the electricity generation sold to the spot market in Sweden and Finland in Power and Heat segments without minority owner's shares of electricity or other pass-through sales. This volume is heavily dependent on price level, hydrological situation, the length of annual maintenance periods and availability of power plants. Sensitivity is calculated only for market price movement as hydrological conditions, temperature, CO₂ allowance prices, fuel prices and the import/export situation all affect electricity price on short-term basis and effects of these factors cannot be separated as individual sensitivity analysis. The sensitivity to electricity prices in Russia is not calculated as this price is to a large extent regulated, and the business is mainly exposed to margin risk between electricity and gas prices, which is the main fuel cost component and the prices are following each other.

3.2.1 Sensitivity arising from financial instruments according to IFRS 7

Sensitivity analysis shows the sensitivity arising from financial electricity derivatives as defined in IFRS 7. These derivatives are used in hedging and proprietary trading purposes in various business units within Fortum. Sensitivities are calculated based on 31 December 2009 (31 December 2008) position. Positions are actively managed in the day-to-day business operations and therefore the sensitivities vary from time to time. Sensitivity analysis includes only the market risks arising from derivatives i.e. the underlying physical electricity sales and purchase are not included. Sensitivity is

calculated with the assumption that electricity forward quotations in Nord Pool and in EEX would change 1 EUR/MWh for the period Fortum has derivatives.

Sensitivity according to IFRS 7

+/- 1 EUR/MWh change in electricity forward quotations, EUR million	Effect	2009	2008
Effect on Profit before income tax	-/+	1	1
Effect on Equity	-/+	53	40

3.2.2 Electricity derivatives

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

⊕ See also Note 1 Accounting policies for accounting principles and bases for fair value estimations on page 113 and Note 6 Fair value changes of derivatives and underlying items in income statement on page 138 for the effects in the income statement regarding electricity derivatives not getting hedge accounting status.

Electricity derivatives by instrument 31 December 2009

Gross	Volume, TWh				Fair value, EUR million		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Sales swaps	97	59	1	157	559	550	9
Purchase swaps	71	31	0	102	347	426	-79
Purchased options	-	1	-	1	1	2	-1
Written options	2	1	-	3	2	1	1
Total	170	92	1	263	909	979	-70
Netting against electricity exchanges ²⁾					-779	-779	0
Net total					130	200	-70

Electricity derivatives by accounting status 31 December 2009

Gross	Volume, TWh				Fair value, EUR million		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Derivatives with hedge accounting status	98	60	0	158	582	628	-46
Derivatives with non-hedge accounting status ¹⁾	72	32	1	105	327	351	-24
Total	170	92	1	263	909	979	-70
Netting against electricity exchanges ²⁾							
Derivatives with hedge accounting status					-523	-523	0
Derivatives with non-hedge accounting status ¹⁾					-256	-256	0
Total					-779	-779	0
Net total					130	200	-70
Of which long-term					54	101	-47
Short-term					76	99	-23

Electricity derivatives by instrument 31 December 2008

Gross	Volume, TWh				Fair value, EUR million		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Sales swaps	108	56	1	165	2,168	66	2,102
Purchase swaps	89	34	-	123	54	1,746	-1,692
Purchased options	2	-	-	2	0	0	0
Written options	4	-	-	4	2	16	-14
Total	203	90	1	294	2,224	1,828	396
Netting against electricity exchanges ²⁾					-1,717	-1,717	0
Net total					507	111	396

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

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

Electricity derivatives by accounting status 31 December 2008

Gross	Volume, TWh				Fair value, EUR million		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Derivatives with hedge accounting status	95	66	0	161	1,349	942	407
Derivatives with non-hedge accounting status ¹⁾	107	25	1	133	875	886	-11
Total	202	91	1	294	2,224	1,828	396
Netting against electricity exchanges ²⁾							
Derivatives with hedge accounting status					-931	-931	0
Derivatives with non-hedge accounting status ¹⁾					-786	-786	0
Total					-1,717	-1,717	0
Net total							
Of which long-term					219	45	174
Short-term					288	66	222

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

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

Maturity analysis of electricity derivatives

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

EUR million	31 December 2009				31 December 2008			
	Under 1 year	1-5 years	Over 5 years	Total	Under 1 year	1-5 years	Over 5 years	Total
Electricity derivatives liabilities	-677	-300	-2	-979	-1,461	-657	-4	-2,122
Electricity derivatives assets	652	255	2	909	1,565	713	3	2,281

3.3 Volume risks

Power and heat generation, customer sales, and electricity distribution volumes have significant variations that depend on the nature of the business. These volumes are subject to changes in, for example, hydrological conditions, economic situation and temperature.

Changes in volumes are closely monitored so that hedges can be adjusted accordingly. In addition, volume risks in power and heat generation are partly mitigated through generation flexibility.

3.4 Fuel price risks

Fortum uses financial derivatives such as oil and coal derivatives to mitigate its fuel price risk and in addition to this Fortum has a proprietary trading book. At 31

December 2009 Fortum had oil sales swaps and futures amounting to 1,555 thousand bbl (2008: 1,047) and oil purchase swaps and futures amounting to 1,450 thousand bbl (2008: 1,230). The respective net fair values were EUR -4 million (2008: -14) and EUR 4 million (2008: 11). Volumes of sold and bought coal derivatives were 1,259 kt (2008: 276) and 1,762 kt (2008: 641) respectively and the net fair values were EUR -3 million (2008: 7) and EUR -1 million (2008: -16).

3.5 CO₂ emission allowance price risk

Fortum manages its exposure to CO₂ allowance prices related to own production through the use of CO₂ forwards and by ensuring that the costs of allowances are taken into account during production planning. These CO₂ allowances are own use contracts valued at cost.

In addition to own production Fortum has proprietary trading book. These allowances are treated as derivatives in the accounts. At 31 December 2009 the trading volumes of sold and bought CO₂ emission allowances were 366 ktCO₂ (2008: 592) and 686 ktCO₂ (2008: 592). The respective net fair values were EUR 1 million (2008: 4) and EUR -2 million (2008: -4).

On 20 February 2008, Fortum, the Russian Territorial Generating Company No. 1 (TGC-1) and ECF Project Ltd signed an agreement according to which Fortum will purchase approximately 5 million tonnes of emission reduction units (ERU) from TGC-1. The ERUs will come from Joint Implementation projects conducted at TGC-1's production facilities during the Kyoto Period (2008-2012) of the European Emissions Trading Scheme. The agreement has been classified as an own use contract and valued at cost.

3.6 Proprietary trading risks

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

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

3.7 Liquidity and refinancing risk

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

Financing is primarily raised on parent company level and distributed internally through various internal financing arrangements. On 31 December 2009, 92% (2008: 92%) of the Group's total external financing was raised by the parent company Fortum Oyj.

On 31 December 2009, the total interest-bearing debt was EUR 6,859 million (2008: 7,500) and the interest-bearing net debt was EUR 5,969 million (2008: 6,179).

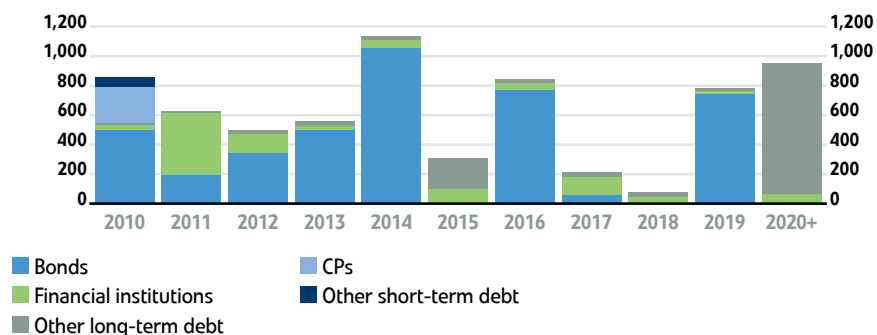
Fortum manages liquidity and refinancing risks through a combination of cash positions and committed credit facility agreements with its core banks. The Group shall at all times have access to cash, marketable securities and unused committed credit facilities including overdrafts, to cover all loans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

On 31 December 2009, loan maturities for the coming twelve-month period amounted to EUR 857 million (2008: 980). Liquid funds amounted to EUR 890 million (2008: 1,321) including OAO Fortum's bank deposits amounting to EUR 626 million (2008: 1,014) and the total amount of committed credit facilities amounted to EUR 2,911 million (2008: 2,906) of which EUR 2,911 million was undrawn (2008: 2,306).

Maturity of interest-bearing liabilities

EUR million	2009
2010	857
2011	626
2012	499
2013	558
2014	1,146
2015 and later	3,173
Total	6,859

Loan maturities per loan type, EUR million



Liquid funds, major credit lines and debt programmes 31 December 2009

EUR million	Total facility	Drawn amount	Available amount
Liquid funds			
Cash and cash equivalents			493
Bank deposits over 3 months			397
Total			890
of which Russia (OAO Fortum)			632
Committed credit lines			
EUR 1,200 million syndicated credit facility	1,200	-	1,200
EUR 1,500 million syndicated credit facility	1,500	-	1,500
Bilateral overdraft facilities	211	-	211
Total	2,911	-	2,911
Debt programmes (uncommitted)			
Fortum Corporation, CP programmes EUR 500 million	500	78	422
Fortum Corporation, CP programmes SEK 5,000 million	488	172	316
Fortum Corporation, EMTN programmes EUR 5,000 million	5,000	4,166	834
Total	5,988	4,416	1,572

Liquid funds amounted to EUR 890 million (2008: 1,321), including OAO Fortum's bank deposits amounting to EUR 626 million (2008: 1,014) earmarked for capacity increase investments in Russia. Of these deposits at year-end 2009 EUR 587 million (2008: 504) were in euros and EUR 39 million (2008: 510) in Russian roubles.

Liquid funds, major credit lines and debt programmes 31 December 2008

EUR million	Total facility	Drawn amount	Available amount
Liquid funds			
Cash and cash equivalents			733
Bank deposits over 3 months			588
Total			1,321
of which Russia (OAO Fortum)			1,020
Committed credit lines			
EUR 1,200 million syndicated credit facility	1,200	-	1,200
EUR 1,500 million syndicated credit facility	1,500	600	900
Bilateral overdraft facilities	206	-	206
Total	2,906	600	2,306
Debt programmes (uncommitted)			
Fortum Corporation, CP programmes EUR 500 million	500	172	328
Fortum Corporation, CP programmes SEK 5,000 million	460	285	175
Fortum Corporation, EMTN programmes EUR 5,000 million	5,000	2,918	2,082
Total	5,960	3,375	2,585

Maturity analysis of interest-bearing liabilities and derivatives

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

EUR million	31 December 2009				31 December 2008			
	Under 1 year	1-5 years	Over 5 years	Total	Under 1 year	1-5 years	Over 5 years	Total
Interest-bearing liabilities	1,106	3,697	3,752	8,555	1,271	5,016	2,524	8,811
Interest rate and currency derivatives liabilities	6,347	1,795	265	8,407	5,046	1,858	60	6,964
Interest rate and currency derivatives receivables	-6,310	-1,832	-256	-8,398	-5,490	-2,027	-59	-7,576
Total	1,143	3,660	3,761	8,564	827	4,847	2,525	8,199

Interest-bearing liabilities include loans from the State Nuclear Waste Management Fund and Teollisuuden Voima Oyj with EUR 774 million (2008: 708). These loans are renewed yearly and connected interest payments are calculated for ten years in the table above.

⊕ For further information regarding loans from the State Nuclear Waste Management Fund and Teollisuuden Voima Oyj, see Note 33 Nuclear related assets and liabilities on page 163.

3.8 Interest rate risk and currency risk

3.8.1 Interest rate risk

The Treasury risk policy stipulates that the average duration of the debt portfolio shall always be kept within a range of 12 and 24 months, and that the flow risk i.e. changes in interest rates shall not affect the net interest payments of the Group by more than EUR 60 million for the next rolling 12-month period. Within these mandates, strategies are evaluated and developed in order to find an optimal balance between risk and financing cost.

On 31 December 2009, the average duration of the debt portfolio (including derivatives) was 1.8 years (2008: 1.6). Approximately 62% (2008: 64%) of the debt portfolio was on a floating rate basis or fixed rate loans maturing within the next 12 month period. The effect of one percentage point change in interest rates on the present value of the debt portfolio was EUR 120 million on 31 December 2009 (2008: 88). The flow risk, measured as the difference between the base case net interest cost estimate and the worst case scenario estimate for Fortum's debt portfolio for the coming 12 months, was EUR 23 million (2008:19).

The average interest rate on loans and derivatives on 31 December 2009 was 3.4% (2008: 4.7%). Average cumulative interest rate on loans and derivatives for 2009 was 3.7% (2008: 5.3%).

3.8.2 Currency risk

Fortum's policy is to hedge major transaction exposures to avoid exchange differences in the profit and loss statement. These exposures are mainly hedged by forward contracts. Translation exposures arising when consolidating income statements and balance sheet statements of entities in Fortum Group whose base currency is not euros, (in Fortum this means mainly entities operating in Sweden, Russia, Norway and Poland) are generally not hedged as the majority of these assets are considered to be long-term strategic holdings of the Fortum Group.

The currency risk relating to transaction exposures are measured using Value-at-Risk (VaR) for a one-day period at 95% confidence level. Translation exposures relating to net investments in foreign entities are measured using a five day period at 95% confidence level. The limit for transaction exposure is VaR EUR 5 million. On 31 December 2009, the open transaction and translation exposures were EUR 42 million (2008: 38) and EUR 3,880 million (2008: 4,060). The VaR for the transaction exposure was EUR 0 million (2008: 0) and VaR for the translation exposure calculated without the fair value change of Renewable Energy Corporation (REC) in Hafslund was EUR 53 million (2008: 75).

⊕ For further information about the accounting of Fortum's shareholding in Hafslund, see Note 22 Participations in associated companies and joint ventures on page 152.

Group Treasury's transaction exposure

EUR million	31 December 2009			31 December 2008		
	Net position	Hedge	Open	Net position	Hedge	Open
SEK	6,051	-6,051	0	5,402	-5,402	0
USD	-163	163	0	-115	115	0
NOK	227	-226	1	312	-312	0
Other	154	-197	-43	216	-254	-38
Total	6,269	-6,311	-42	5,815	-5,853	-38

In addition OAO Fortum is hedging its euro investments with euro deposits EUR 587 million (2008: 504), which qualifies as a cash flow hedge in Fortum group accounts.

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

Fortum's policy is to hedge balance sheet exposures in order to avoid exchange rate differences in the income statement. The Group's balance sheet exposure mainly relates

to financing of Swedish subsidiaries and the fact that the Group's main external financing currency is EUR. For derivatives hedging this balance exposure Fortum does not apply hedge accounting, because they have a natural hedge in the income statement.

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

Group Treasury's translation exposure

EUR million	31 December 2009			31 December 2008		
	Investment	Hedge	Open	Investment	Hedge	Open
RUB	2,614	-	2,614	2,634	-	2,634
SEK	690	-85	605	803	-	803
NOK	443	-	443	435	-	435
PLN	118	-	118	114	-	114
Other	174	-74	100	140	-66	74
Total	4,039	-159	3,880	4,126	-66	4,060

Translation exposure position includes net investments in foreign subsidiaries and associated companies. On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity. The net effect on equity attributable to equity holders from SEK, NOK and RUB was EUR 27 million in 2009 (2008: -680). NOK amount includes the fair value change of Renewable Energy Corporation (REC) shareholding in Hafslund EUR 89 million (2008: 126).

Interest rate and currency derivatives by instrument 31 December 2009

EUR million	Notional amount Remaining lifetimes				Fair value		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Forward foreign exchange contracts	4,663	1,671	-	6,334	43	166	-123
Interest rate swaps	1,536	1,012	1,447	3,995	99	58	41
Interest rate and currency swaps	911	543	-	1,454	95	30	65
Forward rate agreements	-	-	-	-	-	-	-
Total	7,110	3,226	1,447	11,783	237	254	-17
Of which long-term					139	85	54
Short-term					98	169	-71

Interest rate and currency derivatives by use 31 December 2009

EUR million	Notional amount Remaining lifetimes				Fair value		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Net investment hedging foreign exchange derivatives	159	-	-	159	-	3	-3
Cash flow hedging foreign exchange derivatives	167	102	-	269	6	4	2
Non-hedging foreign exchange derivatives ¹⁾	4,337	1,569	-	5,906	37	159	-122
Total forward foreign exchange contracts	4,663	1,671	-	6,334	43	166	-123
Fair value hedging interest rate derivatives	-	450	1,050	1,500	59	-	59
Cash flow hedging interest rate derivatives	65	146	97	308	-	12	-12
Non-hedging interest rate derivatives ¹⁾	1,471	416	300	2,187	40	46	-6
Total interest rate derivatives	1,536	1,012	1,447	3,995	99	58	41
Non-hedging interest rate and currency swaps ¹⁾	911	543	-	1,454	95	30	65
Total interest rate and currency swaps	911	543	-	1,454	95	30	65
Total	7,110	3,226	1,447	11,783	237	254	-17

¹⁾ Consists of deals without hedge-accounting status.

Interest rate and currency derivatives by instrument 31 December 2008

EUR million	Notional amount Remaining lifetimes				Fair value		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Forward foreign exchange contracts	4,200	321	-	4,521	400	30	370
Interest rate swaps	1,130	1,171	692	2,993	43	55	-12
Interest rate and currency swaps	769	1,471	-	2,240	233	15	218
Forward rate agreements	184	46	-	230	1	1	0
Total	6,283	3,009	692	9,984	677	101	576
Of which long-term					223	69	154
Short-term					454	32	422

Interest rate and currency derivatives by use 31 December 2008

EUR million	Notional amount Remaining lifetimes				Fair value		
	Under 1 year	1-5 years	Over 5 years	Total	Positive	Negative	Net
Net investment hedging foreign exchange derivatives	73	-	-	73	0	0	0
Cash flow hedging foreign exchange derivatives	287	70	-	357	16	4	12
Non-hedging foreign exchange derivatives ¹⁾	3,840	251	-	4,091	384	26	358
Total forward foreign exchange contracts	4,200	321	-	4,521	400	30	370
Fair value hedging interest rate derivatives	-	-	300	300	16	-	16
Cash flow hedging interest rate derivatives	1,043	62	92	1,197	0	16	-16
Non-hedging interest rate derivatives ¹⁾	271	1,155	300	1,726	28	40	-12
Total interest rate derivatives	1,314	1,217	692	3,223	44	56	-12
Non-hedging interest rate and currency swaps ¹⁾	769	1,471	-	2,240	233	15	218
Total interest rate and currency swaps	769	1,471	-	2,240	233	15	218
Total	6,283	3,009	692	9,984	677	101	576

1) Consists of deals without hedge-accounting status.

3.9 Share derivatives

Cash-settled share forwards are used as a hedging instrument for the Fortum share price risk regarding the Fortum Group's long-term incentive schemes. The amounts disclosed are non-discounted cash flows for the share derivatives. The maturity of the share forwards is 1-3 years.

➤ See Note 29 Employee bonus, personnel fund and incentive schemes for more information about the Group's long-term incentive schemes on page 157.

EUR million	31 December 2009		31 December 2008	
	Notional value	Net fair value	Notional value	Net fair value
Share forwards	24	21	37	24

3.10 Credit risk

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

Counterparty risk exposures relating to derivative instruments are often volatile due to rapidly changing market prices and are therefore monitored closely. Currency and interest rate derivative counterparts are limited to investment grade banks and financial institutions. Master agreements, such as ISDA, which include netting clauses,

are in place with all of these counterparts. The majority of the Group's commodity derivatives are cleared through an exchange such as Nord Pool, but derivative transactions are also executed on the OTC market directly with external counterparties. These counterparts are limited to those considered of high creditworthiness. Master agreements, such as ISDA, FEMA and EFET, which include netting clauses, are in place with the majority of the counterparts. Furthermore, collaterals are used if dealing with counterparts without approved limits or when exposures arising from engagements are considered too high in relation to the counterpart creditworthiness. Parent company guarantees are requested when dealing with subsidiaries not considered creditworthy on a stand-alone basis.

Credit risk relating to banks is monitored closely as the creditworthiness of financial institutions can deteriorate quickly, which has become apparent during the financial crisis in 2008 and 2009. The creditworthiness of Russian financial institutions can also be affected negatively as liquidity and financing can quickly dry up as foreign investors pull out of emerging markets. Fortum, like any capital intensive business, is exposed to the financial sector, and as a result of the acquisition of OAO Fortum also to Russia. Where possible, exposures have been concentrated to key relationship banks considered to be of high credit quality and importance to the financial stability of their respective countries. In Russia, bank guarantees are used to cover exposures related to the investment programme of OAO Fortum. In case a contractor defaults or does not fulfill its obligations, there are guarantees covering any prepayments as well as performance guarantees in place. Issuers of these guarantees are banks with a strong local presence and understanding of the contractor. The creditworthiness of these banks as well as exposures arising from issued guarantees is monitored closely.

Credit risk in the retail and wholesale business is well diversified over a large number of private individuals and businesses and across several geographic regions and industry sectors.

3.10.1 Credit quality of major financial assets

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

EUR million	2009		2008	
	Carrying amount	of which past due	Carrying amount	of which past due
Investment grade receivables	986	-	1,873	-
Electricity exchanges	10	-	273	-
Associated companies	868	-	704	-
Other	193	-	395	-
Total	2,057	-	3,245	-

Investment grade receivables consist of bank deposits EUR 736 million (2008: 1,183), fair values of interest rate and currency derivatives EUR 237 million (2008: 677) and fair values of electricity, coal and oil derivatives EUR 13 million (2008: 13). Electricity

exchange receivable is the fair value of derivatives on Nord Pool. Associated companies receivables consist of loan receivables EUR 852 million (2008: 659) and fair values of electricity derivatives EUR 16 million (2008: 45). Other receivables consist of loan and other interest bearing receivables EUR 15 million (2008: 59), bank deposits EUR 0 million (2008: 61), finance lease receivables EUR 77 million (2008: 81) and fair values of electricity, coal and oil derivatives EUR 101 million (2008: 194).

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

Bank deposits

EUR million	2009	2008
Counterparties with external credit rating from Standard & Poor's and / or Moody's		
Investment grade ratings		
AAA	-	-
AA+/AA/AA-	218	354
A+/A/A-	80	100
BBB+/BBB/BBB-	438	729
Total investment grade ratings	736	1,183
Non-investment grade ratings	0	-
Counterparties without external credit rating from Standard & Poor's and / or Moody's	-	61
Total	736	1,244

In addition to the above bank deposits, cash in bank accounts totalled EUR 154 million on 31 December 2009 (2008: 77).

Interest rate and currency derivatives

EUR million	2009		2008	
	Receivables	Netted amount	Receivables	Netted amount
Counterparties with external credit rating from Standard & Poor's and / or Moody's				
Investment grade ratings				
AAA	-	-	-	-
AA+/AA/AA-	98	28	329	266
A+/A/A-	139	76	348	326
BBB+/BBB/BBB-	0	0	-	-
Total investment grade ratings	237	104	677	592
Non-investment grade ratings	0	0	0	0
Total	237	104	677	592

Electricity, coal and oil derivatives

EUR million	2009		2008	
	Receivables	Netted amount	Receivables	Netted amount
Counterparties with external credit rating from Standard & Poor's and / or Moody's				
Investment grade ratings				
AAA	-	-	-	-
AA+/AA/AA-	0	0	1	1
A+/A/A-	13	6	6	0
BBB+/BBB/BBB-	-	-	6	5
Total investment grade ratings	13	6	13	6
Non-investment grade ratings				
BB+/BB/BB-	2	2	4	4
B+/B/B-	-	-	-	-
Below B-	-	-	-	-
Total non-investment grade ratings	2	2	4	4
Total associated companies	16	1	45	36
Counterparties without external credit rating from Standard & Poor's or Moody's				
Government or municipality	11	7	6	3
Fortum Rating 5 - Lowest risk	76	50	131	93
Fortum Rating 4 - Low risk	7	2	40	35
Fortum Rating 3 - Normal risk	-	-	-	-
Fortum Rating 2 - High risk	-	-	-	-
Fortum Rating 1 - Highest risk	-	-	-	-
No rating	5	2	13	13
Total non-rated counterparties	99	61	190	144
Total electricity, coal and oil derivatives	130	70	252	190

For derivatives, the receivable is the sum of the positive fair values. Netted amount include negative fair values where a valid netting agreement is in place with the counterpart or netting is otherwise allowed in accordance with local laws. When the netted amount is less than zero, it is not included. In cases where a parent company guarantee is in place, the exposure is shown on the issuer of the guarantee.

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

In the electricity, coal and oil derivatives market, there are a number of counterparties not rated by Standard & Poor's or Moody's. For these counterparties, Fortum assigns an internal rating. The internal rating is based on external credit ratings from other credit agencies. The risk class from Asiakastieto is used for Finnish counterparties, the rating from Creditinform is used for Norwegian counterparties, the risk indicator

from UC (Upplysningscentralen) is used for Swedish counterparties and for other counterparties the rating from Dun & Bradstreet is used. Governments and municipal companies are typically not rated, and are shown separately. This rating category does not include companies owned by governments or municipalities. Counterparts that have not been assigned a rating by the above listed credit agencies are in the “No rating” category.

4 Capital Risk Management

Fortum wants to have a prudent and efficient capital structure which at the same time allows the implementation of its strategy. The Group monitors the capital structure based on Net debt/EBITDA ratio. Net debt is calculated as interest-bearing liabilities less liquid funds. EBITDA is calculated by adding back depreciation, amortisation and impairment charges to operating profit. During 2009 and 2008 target capital structure has been defined as Net debt/EBITDA between 3.0–3.5.

Capital expenditure, acquisitions, dividend distributions, repurchases of own shares and capital returns to shareholders are ways to move towards the target capital structure.

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

Fortum Corporation’s long-term credit rating from Moody’s and Standard and Poor’s was A2 (stable) and A (stable), respectively.

The Net debt / EBITDA ratios

EUR million	Note	2009	2008
Interest-bearing liabilities	31	6,859	7,500
Less: Liquid funds	27	890	1,321
Net debt		5,969	6,179
Operating profit		1,782	1,963
Add: Depreciation, amortisation and impairment charges		510	515
EBITDA		2,292	2,478
Net debt / EBITDA		2.6	2.5

5 Segment reporting

5.1 Fortum’s new business structure

In October 2009 Fortum restructured its organisation into four business divisions and four staff functions in order to increase the organisation’s efficiency, performance accountability and simplicity.

The new business divisions are Power, Heat, Russia and Electricity Solutions and Distribution. The reportable segments under IFRS have been renamed correspondingly. The Electricity Solution and Distribution division is for transparency divided into two reporting segments, i.e. Distribution and Markets.

5.2 Segment structure in Fortum

Fortum’s business operations are organised in four divisions and four staff functions. The staff functions are Finance, Corporate Relations and Sustainability, Corporate Human Resources and Corporate Strategy and R&D. The staff functions have service level agreements with the divisions for services provided.

The Group is reported in the following segments:

Power consists of Fortum’s power generation, exclusive Russia, physical operation and trading, operation, maintenance and development of power plants, as well as expert services for power producers in the Nordic market and selected international markets. Power sells its power mainly to the Nordic power exchange Nord Pool.

Heat provides district heating and cooling, industrial steam and energy produced in waste-to-energy production to industrial companies, municipalities and end-users in the Nordic countries, the Baltic countries and Poland. The Heat segment also sells electricity from its combined heat and power production (CHP) to the Nordic power exchange Nord Pool.

Distribution is responsible for a reliable and secure electricity supply to its customers in the Nordic countries and Estonia. Fortum owns and operates distribution and regional networks and distributes electricity to a total of 1.6 million customers in Sweden, Finland, Norway and Estonia. Electricity distribution is considered and accepted as a regulated business, and is therefore supervised by national energy authorities. Models and principles for supervision and considerations of reasonable tariffs differ from country to country.

Markets is responsible for offering energy solutions to its 1.2 million customers in Finland, Sweden and Norway. The segment buys its electricity from Nord Pool and sells it further to household and business customers as well as other retailers in the Nordic countries. In addition to the actual sale of electricity, Markets provides comprehensive risk and portfolio management solutions to its business customers. Electricity supply in the Nordic countries is a deregulated business since 1995 which means that customers can freely change electricity supplier.

Russia segment is based on the geographical area, Russia, and includes power and heat generation and sales in Russia. It includes mainly the Russian subsidiary OAO Fortum, which is consolidated from 31 March 2008, and the shareholding in the associated company TGC-1.

Other includes mainly the shareholding in the associated company Hafslund ASA and corporate center including the Fortum Group staff functions. The staff functions charge the divisions according to service level agreements.

5.3 Definitions for segment information

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

Consolidation by segment is based on the same principles as for the Group as a whole. Comparable operating profit is reported to give a better view of each segment's performance. The following items in operating profit have been adjusted for in comparable operating profit:

- non-recurring items, which mainly consist of capital gains and losses;
- effects from fair valuations of derivatives hedging future cash flows which do not obtain hedge accounting status according to IAS 39. The major part of Fortum's cash flow hedges obtain hedge accounting where the fair value changes are recorded in equity, see Note 6 Fair value changes of derivatives and underlying items in income statement on page 138;
- effects from the accounting of Fortum's part of the State Nuclear Waste Management Fund where the assets in the balance sheet cannot exceed the related liabilities according to IFRIC 5, see Note 33 Nuclear related assets and liabilities on page 163.

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

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

In comparable net assets, segment's net assets are adjusted for assets and liabilities from fair valuations of derivatives hedging future cash flows which do not obtain hedge

accounting status according to IAS 39 to be in line with comparable operating profit.

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

⊕ See also Key figures on page 174.

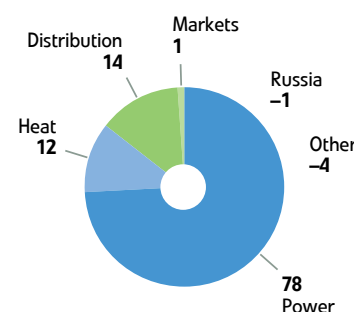
⊕ Quarterly segment information for 2009 and 2008 is available on Fortum's website www.fortum.com/investors/financial-information.

5.4 Inter-segment transactions and eliminations

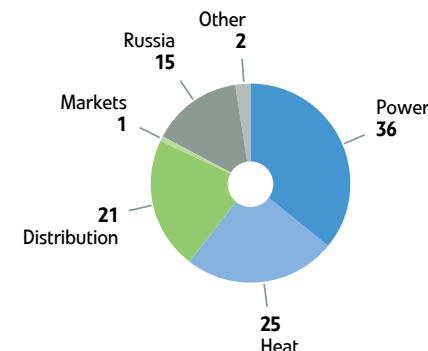
Power segment sells its production to Nord Pool and Markets buys its electricity from Nord Pool. Eliminations of sales include eliminations of sales and purchases with Nord Pool that are netted on group level on an hourly basis and posted either as revenue or cost depending on if Fortum is a net seller or net buyer during any particular hour.

Inter-segment sales, expenses and results for the different business segments are affected by intra-group deliveries, which are eliminated on consolidation. Inter-segment transactions are based on commercial terms.

Comparable operating profit, %



Net assets, %



5.5 Segment information 2009

Income statement

EUR million	Power	Heat	Distri- bution	Markets	Russia	Other	Netting of Nord Pool transac- tions ¹⁾	Elimina- tions	Total
Sales	2,596	1,394	800	1,449	623	74	-1,095	-406	5,435
Of which internal sales	231	22	13	68	-	72		-406	0
External sales	2,365	1,372	787	1,381	623	2	-1,095	0	5,435
Depreciation, amortisation and impairment	-93	-162	-164	-6	-75	-10			-510
Operating profit	1,335	248	263	22	-26	-60			1,782
Share of profit of associated companies and joint ventures	-35 ²⁾	30	10	0	20	-4			21
Finance costs - net									-167
Income taxes									-285
Profit for the period									1,351

1) Sales and purchases with Nord Pool 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.

2) Share of profit of associated companies in the Power segment includes effects from the accounting of Fortum's part of the associated companies share of the Finnish nuclear fund amounting to EUR -5 million, see also Note 33 Nuclear related assets and liabilities on page 163.

Comparable operating profit

EUR million	Power	Heat	Distri- bution	Markets	Russia	Other	Total
Comparable operating profit	1,469	227	262	22	-26	-66	1,888
Non-recurring items	6	21	1	0	0	1	29
Changes in fair values of derivatives hedging future cash-flow	-81	0	0	0	-	5	-76
Nuclear fund adjustment	-59	-	-	-	-	-	-59
Other items effecting comparability	-140	0	0	0	-	5	-135
Operating profit	1,335	248	263	22	-26	-60	1,782

⊕ For further information on items not included in comparable operating profit please see:

- Note 9 Other income regarding non-recurring items on page 142;
- Note 6 Fair value changes of derivatives and underlying items regarding changes in fair values of derivatives hedging future cash flow on page 138;
- Note 33 Nuclear related assets and liabilities regarding nuclear fund adjustment on page 163.

Impairment losses and restructuring costs

EUR million	Power	Heat	Distri- bution	Markets	Russia	Other	Total
Recognised impairment losses for trade receivables	0	0	-2	-4	-5	-	-11
Recognised impairment losses for property, plant and equipment	0	0	-	-	-2	-1	-3
Restructuring costs	-2	-2	0	-1	-5	-1	-11

Impairment losses, EUR -11 million, and restructuring costs, EUR -11 million, are included in comparable operating profit.

Assets and liabilities

EUR million	Power	Heat	Distri- bution	Markets	Russia	Other	Total
Non-interest-bearing assets	5,113	4,062	3,535	485	2,104	127	15,426
Participations in associated companies and joint ventures	863	178	230	12	425	480	2,188
Assets included in Net assets	5,976	4,240	3,765	497	2,529	607	17,614
Interest-bearing receivables							943
Deferred taxes							47
Other assets							347
Liquid funds							890
Total assets							19,841
Liabilities included in Net assets	464	454	466	350	281	252	2,267
Deferred tax liabilities							1,750
Other liabilities							474
Total liabilities included in Capital employed							4,491
Interest-bearing liabilities							6,859
Total equity							8,491
Total equity and liabilities							19,841

Investments

EUR million	Power	Heat	Distri- bution	Markets	Russia	Other	Total
Gross investments in shares	57	1	5	-	3	1	67
Capital expenditure	97	358	188	1	215	3	862
of which capitalised borrowing costs	-	12	-	-	18	-	30

⊕ See also Note 7 Acquisitions and disposals on page 139 regarding gross investments in shares, Note 21.2 Capital expenditure on page 151 for more information regarding capital expenditure by segment and Note 22 Participations in associated companies and joint ventures on page 152.

Comparable return on net assets

EUR million	Net assets by segments	Return on net assets (%)	Comparable return on net assets (%)
Power	5,512	23.9	26.6
Heat	3,786	7.8	7.2
Distribution	3,299	8.7	8.6
Markets	147	16.8	18.6
Russia	2,248	-0.3	-0.3
Other	355	-12.2	-18.7

Employees

	Power	Heat	Distri- bution	Markets	Russia	Other	Total
Number of employees 31 Dec	3,063	2,246	1,088	611	4,090	515	11,613
Average number of employees	3,373	2,208	1,166	629	5,380	522	13,278

5.6 Segment information 2008

Income statement

EUR million	Power	Heat	Distribution	Markets	Russia	Other	Netting of Nord Pool transactions ¹⁾	Eliminations	Total
Sales	2,892	1,466	789	1,922	489	83	-1,736	-269	5,636
Of which internal sales	0	0	10	177	-	82		-269	0
External sales	2,892	1,466	779	1,745	489	1	-1,736	0	5,636
Depreciation, amortisation and impairment	-97	-169	-165	-7	-67	-10			-515
Operating profit	1,599	307	248	-35	-91	-65			1,963
Share of profit of associated companies and joint ventures	26 ²⁾	12	16	5	19	48			126
Finance costs - net									-239
Income taxes									-254
Profit for the period									1,596

1) Sales and purchases with Nord Pool 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.

2) Share of profit of associated companies in the Power segment includes effects from the accounting of Fortum's part of the associated companies share of the Finnish and Swedish nuclear funds amounting to EUR +9 million, see also Note 33 Nuclear related assets and liabilities on page 163.

Comparable operating profit

EUR million	Power	Heat	Distribution	Markets	Russia	Other	Total
Comparable operating profit	1,528	250	248	-33	-92	-56	1,845
Non-recurring items	18	64	2	-	1	0	85
Changes in fair values of derivatives hedging future cash-flow	72	-7	-2	-2	-	-9	52
Nuclear fund adjustment	-19	-	-	-	-	-	-19
Other items effecting comparability	53	-7	-2	-2	-	-9	33
Operating profit	1,599	307	248	-35	-91	-65	1,963

⊕ For further information on items not included in comparable operating profit please see:

- Note 9 Other income regarding non-recurring items on page 142;
- Note 6 Fair value changes of derivatives and underlying items regarding changes in fair values of derivatives hedging future cash flow on page 138;
- Note 33 Nuclear related assets and liabilities regarding nuclear fund adjustment on page 163.

Impairment losses and restructuring costs

EUR million	Power	Heat	Distribution	Markets	Russia	Other	Total
Recognised impairment losses for trade receivables	0	-1	-1	-1	-8	0	-11
Recognised impairment losses for property, plant and equipment	0	0	0	-	0	0	0
Restructuring costs	-	-	-5	-4	-	-1	-10

Impairment losses, EUR -11 million, and restructuring costs, EUR -10 million, are included in comparable operating profit.

Assets and liabilities

EUR million	Power	Heat	Distribution	Markets	Russia	Other	Total
Non-interest-bearing assets	4,914	3,763	3,336	651	2,047	514	15,225
Participations in associated companies and joint ventures	818	160	210	12	429	483	2,112
Assets included in Net assets	5,732	3,923	3,546	663	2,476	997	17,337
Interest-bearing receivables							799
Deferred taxes							2
Other assets							819
Liquid funds							1,321
Total assets							20,278
Liabilities included in Net assets	401	455	514	475	271	201	2,317
Deferred tax liabilities							1,851
Other liabilities							199
Total liabilities included in Capital employed							4,367
Interest-bearing liabilities							7,500
Total equity							8,411
Total equity and liabilities							20,278

Investments

EUR million	Power	Heat	Distribution	Markets	Russia	Other	Total
Gross investments in shares	0	23	-	0	1,492	1	1,516
Capital expenditure	134	408	296	3	256	11	1,108
of which capitalised borrowing costs	-	4	-	-	17	-	21

⊕ See also Note 7 Acquisitions and disposals on page 139 regarding gross investments in shares, Note 21.2 Capital expenditure on page 151 for more information regarding capital expenditure by segment and Note 22 Participations in associated companies and joint ventures on page 152.

Comparable return on net assets

EUR million	Net assets by segments	Return on net assets (%)	Comparable return on net assets (%)
Power	5,331	29.6	28.0
Heat	3,468	8.9	7.3
Distribution	3,032	8.1	8.2
Markets	188	-14.0	-15.3
Russia	2,205	-3.7	-3.8
Other	796	-1.8	-1.7

Employees

	Power	Heat	Distribution	Markets	Russia	Other	Total
Number of employees 31 Dec	3,520	2,318	1,336	635	7,262	508	15,579
Average number of employees	3,591	2,422	1,222	766	5,566	510	14,077

5.7 Group-wide disclosures

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

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

External sales by product area

EUR million	2009	2008
Power sales excluding indirect taxes	3,192	3,291
Heat sales	1,314	1,298
Network transmissions	760	746
Other sales	169	301
Total	5,435	5,636

Heating sales include sale of delivered heat and transmission of heat. Decrease of other sales, -132 million euro, is mainly due to sale of construction and operation of infrastructure business to Hafslund Infratek ASA.

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

Sales by market area based on customer location

EUR million	2009	2008
Nordic	4,449	4,767
Russia	632	494
Poland	136	156
Other countries	218	219
Total	5,435	5,636

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

Capital expenditure by location

EUR million	2009	2008
Finland	255	296
Sweden	264	401
Russia	215	256
Poland	65	56
Norway	12	19
Other countries	51	80
Total	862	1,108

Segment assets by location

EUR million	2009	2008
Finland	4,148	4,623
Sweden	8,760	8,478
Russia	2,111	2,047
Poland	310	249
Norway	223	205
Other countries	407	313
Eliminations	-533	-690
Non-interest bearing assets	15,426	15,225
Participations in associates and joint ventures	2,188	2,112
Total	17,614	17,337

Number of employees on 31 December by location

	2009	2008
Finland	2,700	3,045
Sweden	2,445	3,436
Russia	4,853	7,262
Poland	756	767
Norway	143	292
Other countries	716	777
Total	11,613	15,579

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

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

Fair value changes of currency derivatives in net financial expenses are arising mainly from balance sheet hedges without hedge accounting status according to IAS 39, because they are natural hedges of loans and receivables. Fair value change of interest rate hedges without hedge accounting is EUR 5 million (2008: 2). The net effect of fair value changes of hedging derivative and hedged bonds are EUR -12 million (2008: 0).

Fortum discloses in segment reporting comparable operating profit to give a better view of each segment's performance. The following items in operating profit have been adjusted for in comparable operating profit:

- non-recurring items, which mainly consist of capital gains and losses;
- effects from fair valuations of derivatives in operating profit as presented in the following table. The major part of Fortum's cash flow hedges obtain hedge accounting where the fair value changes are recorded in equity;
- effects from the accounting of Fortum's part of the State Nuclear Waste Management Fund where the assets in the balance sheet cannot exceed the related liabilities according to IFRIC 5.

EUR million	2009	2008
In operating profit		
Fair value changes from derivatives not getting hedge accounting status		
Electricity derivatives	-9	-8
Currency derivatives	-57	57
Oil derivatives	3	-8
Coal derivatives	1	-10
Share derivatives with hedged items ¹⁾	5	-9
Ineffectiveness from cash flow hedges	-19	30
Total effect in operating profit	-76	52
Fair value changes of derivatives not getting hedge accounting included in share of profit of associated companies	-4	-2
In finance costs		
Exchange gains and losses on loans and receivables	315	-757
Fair value changes of derivatives not getting hedge accounting status		
Currency derivatives	-306	744
Interest rate derivatives	5	2
Fair value change of hedging derivatives in fair value hedge relationship	3	11
Fair value change of hedged item in fair value hedge relationship	-15	-11
Total ²⁾	-313	746
Total effect in finance costs	2	-11
Total effect on profit before income tax	-78	39

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

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

7 Acquisitions and disposals

Gross Investments in subsidiary shares by segment

EUR million	2009	2008
Power	-	0
Heat	0	14
Distribution	5	0
Markets	-	0
Russia	3	1,492
Other	-	-
Total	8	1,506

Gross Investments in subsidiary shares by country

EUR million	2009	2008
Finland	0	0
Sweden	5	3
Russia	3	1,492
Other countries	-	11
Total	8	1,506

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

7.1 Acquisitions in 2009

There were no material acquisitions during 2009. In June 2009 OAO Fortum has redeemed additional shares, approximately 0.2%. During last half of 2009 Fortum has acquired the remaining non-controlling interest in Ekerö Energy Group. Total investments in subsidiary shares in 2009 amounted to EUR 8 million.

7.2 Acquisitions in 2008

In 2008 Fortum acquired shares in TGC-10 (renamed as OAO Fortum) in Russia, in Jelgava Kogeneracija SIA (renamed as Fortum Jelgava SIA) in Latvia and in Hofors Energi AB in Sweden. Fortum also acquired the remaining shares in Fortum Wrocław SA, Poland. Total investments in subsidiary shares in 2008 amounted to EUR 1,506 million.

Below is the purchase price information relating to acquisition of OAO Fortum and other acquisitions done in 2008.

7.2.1 Final purchase price allocation of the acquisition of OAO Fortum

In March 2008 Fortum acquired 76.49% of OAO Fortum which is a Russian territorial generating company founded in 2006 and operating in the Urals and West Siberia region. The total installed capacity is 3,000 MW electricity and 15,800 MW heat with an annual production of 18 TWh electricity and 27 TWh heat. The company is committed and contractually obligated to an extensive investment plan to further increase its electricity

capacity with 2,300 MW by 2013. The contractual obligations of OAO Fortum's investment programme include penalty clauses tied to the availability of the new generating capacity. Total sales during 2007 in OAO Fortum were EUR 723 million and operating profit was EUR 26 million based on 2007 published IFRS financial statements.

The acquisition was made through an acquisition of shares and through participation in a share issue. On 20 March 2008 Fortum paid for 47.42% of the shares in OAO Fortum through a share issue for approximately EUR 1.3 billion. The capital received by OAO Fortum will remain in the company and will be used to finance its committed capacity investment programme planned at EUR 2.2 billion. In October 2008, Fortum estimated the value of the investment programme in new capacity to be approximately EUR 2.5 billion. The value for the remaining part of the programme is estimated to be EUR 1.8 billion from January 2010 onwards.

On 26 March 2008 Fortum paid for an additional 29.07% of the shares in OAO Fortum from United Energy Systems of Russia (RAO UES) for approximately EUR 0.8 billion. On 29 April 2008 Fortum filed the mandatory public tender offer (MTO) to OAO Fortum minority shareholders. The offer was valid from 30 April until 18 October 2008. The tender offer covered 23.51% of the share capital of OAO Fortum and has been launched at a price of 111.8 roubles per share to be fully paid in cash. At the end of December 2008, Fortum's registered ownership in OAO Fortum was 93.4% including the shares held by OAO Fortum's 100% owned subsidiary. Additional shares, approximately 0.9%, have been redeemed by OAO Fortum in a redemption process ending in December 2008, but with payment and registration in 2009. These shares are included in the acquisition cost as of 31 December 2008 and by that time Fortum had invested EUR 465 million for share purchases under the MTO including the additionally redeemed shares.

In June 2009 OAO Fortum redeemed additional shares, approximately 0.2%. At the end of December 2009, Fortum's ownership in OAO Fortum was 94.51% including treasury shares and shares held by OAO Fortum's 100% owned subsidiary. The shares redeemed in June 2009 are not included in the purchase consideration disclosed in the table below.

The gross investment for the total transaction was EUR 1,492 million, excluding cash in OAO Fortum (mainly coming from the share issue) and including interest-bearing liabilities in the company. The purchase price allocation is based on a balance sheet as of 31 March 2008 of OAO Fortum. Fortum financial statements include the income statement effect of OAO Fortum from 1 April 2008 onwards. The purchase price allocation initially prepared at March 2008 has been finalised during Q1 2009 as permitted by International Financial Reporting Standards. There have not been material changes to the information disclosed in the Consolidated Financial Statements for 2008. The final and the preliminary purchase price calculations are presented in the table below. The initial purchase price allocation calculated in roubles has been translated into euros by using the exchange rate from the acquisition date.

Consideration

EUR million	OAO Fortum Group
Purchase consideration:	
Cash paid	2,533
Direct costs relating to the acquisition	8
Total purchase consideration	2,541
Fair value of the acquired net assets	2,211
Translation difference	-9
Goodwill	339

Specification of the acquired net identifiable assets

EUR million	Preliminary allocation 31 Dec 2008			Final allocation 31 March 2009		
	Total Value	Allocated Fair Values	Acquired Book Value	Total Value	Allocated Fair Values	Acquired Book Value
Liquid funds	1,321		1,321	1,321		1,321
Intangible assets	9		9	9		9
Property, plant and equipment	1,602	1,022	580	1,585	1,005	580
Participations in associates and joint ventures	36		36	36		36
Inventories	60		60	60		60
Receivables	122		122	122		122
Non-interest bearing liabilities	-306	-192	-114	-306	-192	-114
Interest-bearing liabilities	-272		-272	-272		-272
Deferred tax liabilities	-192	-199	7	-189	-196	7
Net identifiable assets	2,380	631	1,749	2,366	617	1,749
Non-controlling interest	-169	-53	-116	-155	-38	-117
Fair value of the acquired net identifiable assets	2,211	578	1,633	2,211	579	1,632

Adjustments to initial purchase price allocation mainly relate to the finalisation of the fair valuation of acquired property, plant and equipment.

Gross investment in OAO Fortum

EUR million	OAO Fortum Group
Purchase consideration settled in cash	2,541
Liquid funds in OAO Fortum	1,321
Cash outflow on acquisition	1,220
Interest-bearing debt in OAO Fortum	272
Gross investment in OAO Fortum	1,492

7.2.2 Other acquisitions during 2008

In Latvia, Fortum acquired 100% of the shares in Jelgavas Kogeneracija SIA at the end of March. The acquired company provides district heating to the city of Jelgava. The annual heat sales are 200 GWh, the sales EUR 10 million, and the number of employees 170. The gross investment was EUR 10 million.

In Sweden, Fortum acquired additional 11.22% shares in Hofors Energi AB. After this acquisition Fortum's total ownership of the shares in Hofors Energi AB is 60%. The acquired company provides district heating to the Hofors area. The annual heat sales are 130 GWh, the sales EUR 7 million, and Fortum has already earlier taken care of operations in the company. The gross investment was EUR 3 million.

During 2008 Fortum continued to acquire shares in its Polish subsidiaries. Fortum reached 100% ownership in Fortum Wrocław S.A and the company has been merged to Fortum Power and Heat Polska Sp z o.o. at year-end 2008.

Consideration

EUR million	Other acquisitions
Purchase consideration	
Cash paid	12
Direct costs relating to the acquisition	0
Total purchase consideration	12
Fair value of the acquired net assets	12
Translation difference	0
Goodwill	0

Specification of the acquired net identifiable assets

EUR million	Other acquisitions		
	Total Value	Allocated Fair Values	Acquired Book Value
Liquid funds	2	0	2
Intangible assets	1	0	1
Property, plant and equipment	32	21	11
Participations in associates and joint ventures	1	0	1
Inventories	0	0	0
Receivables	4	0	4
Non-interest bearing liabilities	-5	0	-5
Interest-bearing liabilities	-4	0	-4
Deferred tax liabilities	-7	-5	-2
Net identifiable assets	24	16	8
Non-controlling interest	-5	-3	-2
Step-by-step acquisition ¹⁾	-7	-4	-3
Fair value of the acquired net identifiable assets	12	9	3

1) Refers to book values for the part of Hofors Energi previously owned by the Group and the related changes in asset revaluation surplus.

Gross investment in subsidiaries acquired

EUR million	Other acquisitions
Purchase consideration settled in cash	12
Liquid funds in subsidiaries acquired	2
Cash outflow on acquisition	10
Interest-bearing debt in subsidiaries acquired	4
Gross investment in subsidiaries acquired	14

7.3 Disposals in 2009 and 2008

In January 2009 Fortum and (Norwegian) Hafslund Infratek ASA combined their businesses of construction and operating of infrastructure in Sweden, Finland and Norway. In the transaction Fortum received 33% ownership in the new combined company.

➕ For more information see Note 22 Participations in associated companies and joint ventures on page 152.

In the end of December 2008 Fortum sold its 60% ownership in Jyväskylän Energiantuotanto Oy to Jyväskylän Energia. The transaction included both subsidiary shares, land on which the power plant is located on and assets related to business operations. In July 2008 Fortum sold its 100% ownership in Recotech AB to Tellestate AB.

8 Exchange rates

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

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

Key exchange rates for Fortum Group applied in the accounts

Currency	Average rate		Balance sheet date rate	
	2009	2008	31 Dec 2009	31 Dec 2008
Sweden	SEK 10.6092	9.6647	10.2520	10.8700
Norway	NOK 8.7708	8.2605	8.3000	9.7500
Poland	PLN 4.3321	3.5328	4.1045	4.1535
Russia	RUB 44.0684	36.6905	43.1540	41.2830

9 Other income

EUR million	2009	2008
Capital gains on disposal of non-current assets	31	86
Gain on sale of emission rights	6	8
Rental income	42	39
Fair value changes on derivatives that do not qualify for hedge accounting status	-77	52
Insurance compensation	10	6
Other items	22	39
Total	34	230

Revenue from activities outside normal operations is reported in other income. This includes recurring items such as rental income and non-recurring items such as gains from sale of shares. Gains on sale of shares, property, plant and equipment are included in capital gains on disposal of non-current assets.

Capital gains in 2009 mainly include the sale of a combined heat and power plant in the city of Kokkola, Finland, fixed assets in Stockholm, both in Heat segment, and gain in Power segment from combining the construction and operating of infrastructure business with Hafslund Infratek ASA.

Capital gains in 2008 mainly include the sales gains from the divestments of Fortum's 50% shareholding in Panjin Liaohe Fortum Thermal Power Company Co in China and the 30% shareholding in Polartest Oy, both in Power segment, and Fortum's 60% ownership in Jyväskylän Energiantuotanto Oy to Jyväskylän Energia and fixed assets in Stockholm, both in Heat segment.

Gain on sale of emission rights amounted to EUR 6 million (2008: 8). Costs for made emissions which are not covered by emission rights received for free were EUR 12 million (2008: 14). The costs are included in Materials and services.

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

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in other income.

⊕ For more information regarding fair value changes of derivatives, see Note 6 Fair value changes of derivatives and underlying items in income statement on page 138.

⊕ For more information regarding disposals of shares, see Note 7 Acquisitions and disposals on page 139.

10 Materials and services

EUR million	2009	2008
Materials	1,159	1,345
Materials purchased from associated companies	556	556
Transmission costs	131	127
External services	181	89
Total	2,027	2,117

Materials contain mainly nuclear, coal and gas used as fuels for producing power and heat. Materials purchased from associated companies consist of purchases of nuclear power and hydropower at production costs including interest costs, production taxes and income taxes.

Total materials and services include production taxes and duties EUR 148 million (2008: 170) of which nuclear related capacity and property taxes EUR 62 million (2008: 80) and hydro power related property taxes EUR 11 million (2008: 11). Taxes related to nuclear and hydro production include taxes paid through electricity purchased from associated companies as mentioned above.

⊕ See note 22 Participations in associated companies and joint ventures on page 152.

11 Other expenses

EUR million	2009	2008
Operation and maintenance costs	212	234
Property taxes	79	79
IT and telecommunication costs	64	67
Research and development costs	30	27
Other items	274	277
Total	659	684

The major components recorded in other expenses are the external operation and maintenance costs of power and heat plants and of transmission lines. Property taxes include property taxes relating to directly owned hydropower production EUR 63 million (2008: 67).

Principal auditors' fees

EUR million	2009	2008
Audit fees	1.4	1.2
Audit related assignments	0.1	0.2
Tax assignments	0.0	0.3
Other assignments	0.1	0.2
Total	1.6	1.9

Deloitte is the appointed auditor for the period until 2010 Annual General Meeting. In OAO Fortum, KPMG was the appointed auditor for the period until 2009 Annual General Meeting at which Deloitte was appointed auditors. Audit fees include fees for the audit of the consolidated financial statements, review of the interim reports as well as the fees for the audit of Fortum Oyj and its subsidiaries. Audit related assignments include fees for assurance and associated services related to the audit. Tax fees include fees for tax advice and tax planning services.

12 Employee costs and management remuneration

EUR million	2009	2008
Wages and salaries	351	406
Pensions		
Defined contribution plans	35	36
Defined benefit plans	13	11
Social security costs	67	83
Share-based remunerations	5	19
Other employee costs	20	32
Total	491	587

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

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

➤ For further information on Fortum's employee bonus and equity incentive schemes as well as Personnel Fund, see Note 29 on page 157 and for pension obligations see Note 35 on page 165.

12.1 Supervisory Board remuneration

The Supervisory Board comprises a minimum of six and a maximum of 12 members. The Supervisory Board meetings are also attended by employee representatives who are not members of the Supervisory Board. The Annual General Meeting confirms the remuneration for the Supervisory Board members. Total remuneration for the Supervisory Board service in 2009 was EUR 81 thousand (2008: 76).

Each Supervisory Board member receives a fixed monthly fee and a meeting fee. The employee representatives receive only a meeting fee. All members are entitled to travel expense compensation against receipts in accordance with the company's travel policy. Supervisory Board members are not offered any long-term incentive benefits or participation in other incentive schemes. There is no pension plan for non-executive members.

The Annual General Meeting confirmed the following remuneration for the Supervisory Board:

EUR/month	2009	2008
Chairman	1,000	1,000
Deputy Chairman	600	600
Members	500	500
Meeting fee	200	200

12.2 Board remuneration

The Board of Directors comprises five to seven members who are elected at the Annual General Meeting for a one-year term of office, which expires at the end of the first Annual General Meeting following the election. During 2009 the Board consisted of six members (2008 seven members). The table below presents the total compensation including meeting fees paid to the Board of Directors.

EUR thousand	2009	2008
Chairman, Matti Lehti (from 7 April 2009)	54	NA
Chairman, Peter Fagernäs (until 7 April 2009)	21	70
Deputy chairman, Sari Baldauf (from 7 April 2009)	41	NA
Deputy chairman, Matti Lehti (until 7 April 2009)	17	51
Birgitta Johansson-Hedberg	49	49
Christian Ramm-Schmidt	43	42
Esko Aho	43	41
Ilona Ervasti-Vaintola	43	32
Marianne Lie (until 7 April 2009)	17	47
Birgitta Kantola	NA	13
Total	328	345

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

The Annual General Meeting confirmed the following remuneration for the Board:

EUR	2009	2008
Chairman	66,000	66,000
Deputy Chairman	49,200	49,200
Members	35,400	35,400
Meeting fee	600	600

12.3 The President and CEO and the management team remuneration

The Fortum Management Team (FMT) consists of nine members from 1 October 2009 (previously eight members), including the President and CEO to whom the other members of the FMT report.

During 2009 there were changes in the Fortum management. As of 1 May 2009 Tapio Kuula was appointed President and CEO replacing Mikael Lilius. In connection with Fortum's new business structure new FMT members were appointed from 1 October 2009 onwards.

Following tables present the remuneration of the management for their respective terms of office. Tapio Kuula has also previously been a member of FMT. Therefore his

remuneration is divided into two parts. For comparison purposes his annual remuneration is also presented. The first table presents the expenses booked in the financial statements and the second table presents the actual payments made during the period. Social security expenses EUR 342 thousand (2008: 303) have been booked for salaries, fringe benefits and bonuses in accordance with local legislation in respective countries. In addition to this, termination benefits of EUR 833 thousand including social security charges have been booked in 2009 relating to former FMT members.

➔ Additional information about the terms and conditions of the remuneration of the President and CEO Tapio Kuula is available online at [www.fortum.com/Investors/Corporate governance/ Management team/Remuneration of President and CEO](http://www.fortum.com/Investors/Corporate%20governance/Management%20team/Remuneration%20of%20President%20and%20CEO) and on page 74 Remuneration in the Annual Report.

Remuneration booked as expense during 2009

	The President and CEO	Former President and CEO	Other FMT members	Other FMT members	The President and CEO ⁴⁾
EUR thousands	May 1–Dec 31	Jan 1–Apr 30	Oct 1–Dec 31	Jan 1–Sep 30	Annual
Salaries and fringe benefits	604	288	805	1,114	745
Performance bonuses ¹⁾	158	80	177	272	237
Pensions	191	713	193	746	479
Total	953	1,081	1,175	2,132	1,461

Remuneration paid during 2009

	The President and CEO	Former President and CEO	Other FMT members	Other FMT members	The President and CEO ⁴⁾
EUR thousands	May 1–Dec 31	Jan 1–Apr 30	Oct 1–Dec 31	Jan 1–Sep 30	Annual
Salaries and fringe benefits	604	288	805	1,114	745
Performance bonuses ²⁾	-	347	-	605	134
Pensions ³⁾	151	102	143	703	452
Total	755	737	948	2,422	1,331

Remuneration booked as expense during 2008

	Former President and CEO	Other FMT members
EUR thousands		
Salaries and fringe benefits	867	1,719
Performance bonuses	388	586
Pensions	1,013	757
Total	2,268	3,062

Remuneration paid during 2008

	Former President and CEO	Other FMT members
EUR thousands		
Salaries and fringe benefits	867	1,719
Performance bonuses	156	102
Pensions ³⁾	1,075	595
Total	2,098	2,416

1) Performance bonuses booked as expense for 2009 are based on estimated amounts.

2) Performance bonuses for year 2008 were paid in spring 2009.

3) Payments relating to pensions are paid to the insurance companies and to Fortum's pension funds.

4) The full year remuneration for Tapio Kuula representing the period Jan 1–Apr 30 as a member of FMT and from May 1 onwards as the President and CEO.

The compensation package for FMT consists of base salaries, purposeful benefits, annual individual short-term incentives (annual bonus) and share-based long-term incentives.

The President and CEO as well as the other FMT members are paid annual performance bonuses in addition to their salary and fringe benefits. The criteria used in determining the size of the annual bonus for senior management are decided annually by the Board of Directors on the recommendation of the Board's Nomination and Compensation Committee. The performance of each senior executive is evaluated annually. The size of each senior executive's annual bonus is dependent on the Group's financial performance, as well as on their own success in reaching their individual goals, which for the President and CEO are set by the Board's Nomination and Compensation Committee. The Committee recommends the level of the President and CEO's compensation to the Board of Directors for approval. Performance bonuses are paid next spring after publication of Fortum's yearly results and after the annual performance discussions have been held.

For the President and CEO the retirement age is 63. The President and CEO's pension arrangement has been changed from a defined benefit pension plan to a defined contribution pension plan during 2009. Its annual contribution is 25% of the annual salary. The annual salary consists of a base salary, fringe benefits and short-term incentives (annual bonus). In case the assignment is terminated before retirement age, the person is entitled to retain the benefits accrued in the arrangement for his benefit. For other management team members the retirement age is 60 or 63. The pension paid is maximum 66% or 60% of the remuneration. In the first case they are defined benefit pensions and are insured and paid by Fortum's pension fund. In the latter, pensions are either defined benefit or defined contribution schemes insured by an insurance company.

In the event that Fortum decides to give notice of termination to the President and CEO, he is entitled to compensation equalling 24 months' salary and other FMT members to a compensation equalling 12 to 24 months' salary.

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

In the table below is presented the amounts booked as expense and the amounts paid for remuneration under long-term incentive schemes.

Remuneration under long-term incentive schemes during 2009

EUR thousands	The President and CEO May 1–Dec 31	Former President and CEO Jan 1–Apr 30	Other FMT members Oct 1–Dec 31	Other FMT members Jan 1–Sep 30	The President and CEO ²⁾ Annual
Share-based remuneration booked as expense	318	140	226	892	477
Income from LTI plans settled during the year ¹⁾					
Value of actual shares received	-	343	-	561	133
Income tax and other charges	-	383	-	644	142
Taxable income from the long-term incentive plan	-	726	-	1,205	275
Actual number of shares received	-	22,423	-	36,685	8,682

Remuneration under long-term incentive schemes during 2008

EUR thousands	Former President and CEO	Other FMT members
Share-based remuneration booked as expense	475	1,024
Income from LTI plans settled during the year ¹⁾		
Value of actual shares received	1,013	1,654
Income tax and other charges	1,136	1,814
Taxable income from the long-term incentive plan	2,149	3,468
Actual number of shares received	36,756	59,980

1) The shares are delivered in February after the announcement of the Group's annual result for the last calendar year.

2) The full year remuneration for Tapio Kuula representing the period Jan 1–Apr 30 as a member of FMT and from May 1 onwards as the President and CEO.

Shares for long-term incentive plan 2003–2008 were delivered to the participants in February 2009. The number of shares was granted in spring 2006 after the three-year earning period. The value of the shares at the grant date could not exceed participants' one year salary including fringe benefits. The shares were delivered to the participant after the three-year lock-up period in February 2009. Taxable income includes the value of actual Fortum shares received, income taxes, transfer taxes and certain statutory employment related expenses paid on the reward depending on the practice in the participant's country. The value of the shares is calculated based on the Fortum share price at the purchase date.

⊕ See Note 29 Employee bonus system, personnel fund and incentive schemes on page 157.

13 Depreciation, amortisation and impairment charges

EUR million	2009	2008
Depreciation of property, plant and equipment		
Buildings and structures	86	79
Machinery and equipment	396	410
Other tangible assets	5	5
Amortisation of intangible assets	20	21
Total	507	515
Impairment charges		
Buildings and structures	3	0
Total	3	0
Depreciation, amortisation and impairment charges total	510	515

⊕ See also Note 5 Segment reporting on page 134.

14 Finance costs - net

EUR million	2009	2008
Interest expense		
Borrowings	-268	-363
Other interest expense	-3	-9
Capitalised borrowing costs	30	21
Total	-241	-351
Interest income		
Loan receivables	88	130
Other interest income	10	13
Total	98	143
Fair value gains and losses on financial instruments ¹⁾	-1	-11
Exchange gains and losses		
Loans and receivables	315	-757
Derivatives	-312	759
Dividend income	1	1
Interest income on share of State Nuclear Waste Management Fund ²⁾	20	30
Unwinding of discount on nuclear provisions ²⁾	-26	-32
Unwinding of discount on other provisions ³⁾	-14	-12
Other financial income	2	4
Other financial expenses	-9	-13
Total	-23	-20
Finance costs - net	-167	-239

1) Please see Note 6 Fair value changes of derivatives and underlying items in the income statement on page 138.

2) Please see Note 33 Nuclear related assets and liabilities on page 163.

3) Please see Note 34 Other provisions on page 165.

Interest expenses include interest expenses on interest-bearing loans, interest on interest rate and currency swaps, forward points on forward foreign exchange contracts hedging loans and receivables. Other interest expenses includes interest on financial leases EUR -1 million (2008: -3) and other interest cost EUR -2 million (2008: -6).

⊕ About capitalised borrowing costs see Note 21.1 Capitalised borrowing costs on page 151.

Interest income includes EUR 37 million (2008: 33) from shareholders' loans in Finnish and Swedish nuclear companies, EUR 55 million (2008: 65) from deposits as well as the effect from hedging of SEK denominated interest income of EUR -5 million (2008: 27). Other interest income includes mainly income from financial leases as a lessor.

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

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

Fair value changes on interest rate and currency derivatives

EUR million	2009	2008
Interest rate and cross currency swaps		
Interest expenses on borrowings	20	4
Exchange rate difference from derivatives	-95	322
Rate difference in fair value gains and losses on financial instruments ¹⁾	8	13
Total fair value change of interest rate derivatives in finance costs - net	-67	339
Forward foreign exchange contracts		
Interest expenses on borrowings	-4	-11
Exchange rate difference from derivatives	-217	437
Rate difference in fair value gains and losses on financial instruments	6	-13
Total fair value change of currency derivatives in finance costs - net	-215	413
Total fair value change of interest and currency derivatives in finance costs - net	-282	752

1) Fair value gains and losses on financial instruments include fair value changes from interest rate swaps not getting hedge accounting amounting to EUR 5 million (2008: 2).

Aggregated exchange rate differences included in operating profit were EUR -1 million (2008: -1) and in finance costs EUR 3 million (2008: 2).

15 Income tax expense

15.1 Profit before tax

EUR million	2009	2008
Finnish companies	540	584
Swedish companies	659	723
Other companies	437	543
Total	1,636	1,850

15.2 Major components of income tax expense by major countries

EUR million	2009	2008
Current taxes		
Finnish companies	-168	-47
Swedish companies	-179	-147
Other companies	-40	-66
Total	-387	-260
Deferred taxes		
Finnish companies	70	-86
Swedish companies	17	36
Other companies	8	51
Total	95	1
Adjustments recognised for current tax of prior periods		
Finnish companies	-2	2
Swedish companies	-2	1
Other companies	11	2
Total	7	5
Total income taxes	-285	-254

15.3 Income tax rate

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

EUR million	2009	%	2008	%
Profit before tax	1,636		1,850	
Tax calculated at nominal Finnish tax rate	-425	26.0	-481	26.0
Differences in tax rates and regulations in other countries	126	-7.7	76	-4.1
Tax rate changes	-	-	113	-6.1
Income not subject to tax	16	-1.0	9	-0.5
Tax exempt capital gains	1	-0.1	14	-0.8
Expenses not deductible for tax purposes	-5	0.4	-13	0.7
Share of profit of associated companies and joint ventures	5	-0.4	34	-1.8
Taxes related to dividend distributions	-3	0.2	-3	0.2
Tax losses for which no deferred tax was recognised	-6	0.4	-4	0.2
Utilisation of previously unrecognised tax losses	-	-	1	-0.1
Adjustments recognised for change in deferred tax of prior periods	-1	0.1	-5	0.3
Adjustments recognised for current tax of prior period	7	-0.5	5	-0.3
Tax charge in the income statement	-285	17.4	-254	13.7

The weighted average applicable tax rate was 27.5% (2008: 29.1%). The tax rate according to the income statement was 17.4% (2008: 13.7%). The tax rate used in the income statement is always impacted by the fact that share of profits of associates and joint ventures are recorded based on Fortum's share of profits after tax. Excluding the share of profits from associates, capital gains and other one-time items, the tax rate was 18.5% (2008: 22.1%).

Fortum tax rate in the income statement (17.4%) was mainly effected by the balance of income in different countries combined with the effects from the latest acquisitions and other operative actions and structures and their tax treatment.

15.4 One-time effects

The major part of the tax exempt capital gains in 2009 is from sale of shares in companies with construction and operation of infrastructure business.

In December 2008 the Swedish Government passed legislation lowering the income tax rate from 28% to 26.3%. The one-time positive effect from legislation in the income tax cost from revaluing the deferred taxes approximated EUR 81 million. Also in December 2008 the Russian Government passed legislation lowering the income tax rate from 24% to 20%. The one-time positive effect from legislation in the income tax cost from revaluing the deferred taxes approximated EUR 32 million.

⊕ See also Note 32 Deferred income tax on page 162.

16 Earnings per share

16.1 Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2009	2008
Profit attributable to owners of the parent, (EUR million)	1,312	1,542
Weighted average number of shares (thousands)	888,230	887,256
Basic earnings per share (EUR per share)	1.48	1.74

16.2 Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. At the end of 2009 Fortum had no diluted stock option schemes. At the end of 2008 the Group had one diluting stock option scheme 2002 for key employees. For the warrants and stock options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Fortum's shares) based on the monetary value of the subscription rights attached to outstanding options. The number of shares calculated as above

is compared with the number of shares that would have been issued assuming the exercise of the stock options.

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

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

	2009	2008
Profit attributable to owners of the parent (EUR million)	1,312	1,542
Weighted average number of shares (thousands)	888,230	887,256
Effect of the 2002 key employees stock options (thousands)	-	583
Diluted average number of shares (thousands)	888,230	887,839
Diluted earnings per share (EUR per share)	1.48	1.74

17 Dividend per share

A dividend in respect of 2009 of EUR 1.00 per share, amounting to a total dividend of EUR 888 million based on the number of shares registered as of 2 February 2010, is to be proposed at the Annual General Meeting on 25 March 2010. These financial statements do not reflect this dividend.

The Annual General Meeting on 7 April 2009 decided to distribute a dividend of EUR 1.00 per share in respect of 2008 to the shareholders. The total dividend amounted to EUR 888 million based on the number of shares registered as of 14 April 2009. The dividend was paid on 21 April 2009.

The Annual General Meeting on 1 April 2008 decided to distribute a dividend of EUR 1.35 per share in respect of 2007 to the shareholders, of which EUR 0.77 per share was paid from Fortum's recurring earnings. An additional dividend of EUR 0.58 per share was decided to steer Fortum's capital structure towards agreed target. The total dividend amounted to EUR 1,198 million based on the amount of shares registered as of 4 April 2008. The dividend was paid on 11 April 2008.

18 Financial assets and liabilities by categories

Financial assets and liabilities in the tables below are split into categories in accordance with IAS 39. The categories are further split into classes which are basis for valuing respective asset or liability. Further information can be found in the Notes mentioned in the table.

Financial assets by categories

Financial assets by categories		Loans and receivables		Financial assets at fair-value through profit and loss											
EUR million	Note	Amortised cost		Hedge accounting, fair value hedges		Non-hedge accounting		Fair-value recognised in equity, cash flow hedges		Available-for-sale financial assets		Finance leases		Total financial assets	
		2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Financial instruments in non-current assets															
Other non-current assets ¹⁾	23	25	18							44	40			69	58
Derivative financial instruments	3														
Electricity derivatives						38	52	16	167					54	219
Interest rate and currency derivatives				59	16	77	202	3	5					139	223
Oil and other futures and forward contracts						2	3							2	3
Long-term interest-bearing receivables	24	854	672									64	70	918	742
Financial instruments in current assets															
Derivative financial instruments	3														
Electricity derivatives						33	36	43	252					76	288
Interest rate and currency derivatives						95	443	3	11					98	454
Oil and other futures and forward contracts						8	19							8	19
Trade receivables	26	784	849											784	849
Other short-term interest-bearing receivables	26	12	46									13	11	25	57
Bank deposits	27	397	588											397	588
Cash and cash equivalents	27	493	733											493	733
Total		2,565	2,906	59	16	253	755	65	435	44	40	77	81	3,063	4,233

1) In 2009 pension assets are excluded. Year 2008 has been changed accordingly.

Financial liabilities by categories

Financial liabilities by categories		Financial liabilities at fair-value through profit and loss						Other financial liabilities							
		Hedge accounting, fair value hedges		Non-hedge accounting				Amortised cost		Fair value					
EUR million	Note					Fair-value recognised in equity, cash flow hedges						Finance leases		Total financial liabilities	
		2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Financial instruments in non-current liabilities															
Interest-bearing liabilities	31							4,464	6,645	1,514	309	24	26	6,002	6,980
Derivative financial instruments	3														
Electricity derivatives				34	42	67	3							101	45
Interest rate and currency derivatives				75	58	10	11							85	69
Oil and other futures and forward contracts				5	6									5	6
Financial instruments in current liabilities															
Interest-bearing liabilities	31							854	514			3	6	857	520
Derivative financial instruments	3														
Electricity derivatives				60	59	39	7							99	66
Interest rate and currency derivatives				161	24	8	8							169	32
Oil and other futures and forward contracts				8	28									8	28
Trade payables	37							317	343					317	343
Other liabilities	37							158	116					158	116
Total		-	-	343	217	124	29	5,793	7,618	1,514	309	27	32	7,801	8,205

19 Financial assets and liabilities by fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

➤ See Note 1 Accounting policies, 1.30 Fair value estimation on page 124.

Financial assets

		Level 1		Level 2		Level 3		Netting ³⁾		Total	
EUR million	Note	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
In non-current assets											
Available for sale financial assets	23					44	40 ¹⁾			44	40
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				164	523			-148	-356	16	167
Non-hedge accounting		3		86	152	2	2 ²⁾	-53	-102	38	52
Interest rate and currency derivatives											
Hedge accounting				62	21					62	21
Non-hedge accounting				77	202					77	202
Oil and other futures and forward contracts											
Non-hedge accounting		2	3							2	3
In current assets											
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				418	826			-375	-574	43	252
Non-hedge accounting				236	721			-203	-685	33	36
Interest rate and currency derivatives											
Hedge accounting				3	11					3	11
Non-hedge accounting				95	443					95	443
Oil and other futures and forward contracts											
Non-hedge accounting		8	19							8	19
Total		13	22	1,141	2,899	46	42	-779	-1,717	421	1,246

Financial liabilities

		Level 1		Level 2		Level 3		Netting ³⁾		Total	
EUR million	Note	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
In non-current liabilities											
Interest-bearing liabilities	31			1,514	309					1,514	309
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				215	361	1		-149	-358	67	3
Non-hedge accounting	2			83	140	1	2 ²⁾	-52	-100	34	42
Interest rate and currency derivatives											
Hedge accounting				10	11					10	11
Non-hedge accounting				75	58					75	58
Oil and other futures and forward contracts											
Non-hedge accounting	5	6								5	6
In current liabilities											
Derivative financial instruments	3										
Electricity derivatives											
Hedge accounting				413	581			-375	-522	38	59
Non-hedge accounting	1	16		263	728			-203	-737	61	7
Interest rate and currency derivatives											
Hedge accounting				8	8					8	8
Non-hedge accounting				161	24					161	24
Oil and other futures and forward contracts											
Non-hedge accounting	8	28								8	28
Total		16	50	2,742	2,220	2	2	-779	-1,717	1,981	555

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 43 million (2008: 39), for which the fair value can not be reliably determined. These assets are measured at cost less possible impairment.

Available for sale financial assets include listed shares at fair value of EUR 1 million (2008: 1). The cumulative fair value change booked in Fortum's equity was EUR -1 million (2008: -1).

2) Nord Pool quotes the closest 5 years, for years beyond a systematic price estimate made by Fortum is used. Reason for transferring electricity derivatives from level 3 to level 2 is the maturity of contracts.

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

20 Intangible assets

	Goodwill		Other intangible assets		Total	
EUR million	2009	2008	2009	2008	2009	2008
Cost 1 January	298	-	379	344	677	344
Exchange rate differences and other adjustments	-13	-41	-27	-3	-40	-44
Increases through business combinations	-	339	-	13	-	352
Capital expenditure	-	-	20	9	20	9
Change in emission rights	-	-	0	14	0	14
Disposals	-	-	-6	-3	-6	-3
Reclassifications	-	-	6	5	6	5
Cost 31 December	285	298	372	379	657	677
Accumulated depreciation 1 January	-	-	282	259	282	259
Exchange rate differences and other adjustments	-	-	-30	2	-30	2
Increases through business combinations	-	-	-	2	-	2
Disposals	-	-	-6	-2	-6	-2
Reclassifications	-	-	-	-	-	-
Depreciation for the period	-	-	20	21	20	21
Accumulated depreciation 31 December	-	-	266	282	266	282
Carrying amount 31 December	285	298	106	97	391	395

The goodwill is included in Russia segment and relates to the acquisition of OAO Fortum (former TGC-10); see Note 7 Acquisitions and disposals on page 139. The goodwill has been tested for impairment by comparing recoverable amounts of the net operating assets for OAO Fortum, including goodwill, with their carrying amounts. The recoverable amounts were determined on the basis of value in use, applying discounted cash flow calculations.

Key assumptions made by management and used in the cash flow forecast were: expected development of Russian power market, utilization of power plants and other assets, forecasted maintenance and refurbishment investments as well as finalisation of the investment program and rate used for discounting. Assumptions are based on expectations of future events that are believed to be reasonable under the circumstances. The process used to determine these assumptions has not changed from previous year. The cash flows are based on business plan approved by the Board of Directors. The power market liberalisation in Russia and OAO Fortum's investment program has progressed expectedly during 2009. The discount rate is determined taking into account the risk profile of the country in which the cash flows are generated. Pre-tax discount rate used for Russia was 11.7% (2008: 11.7%). There have not

been any major changes in the discount rate components or in the methods used to determine them.

As of 31 December 2009, the recoverable values were found to be in excess of their carrying values and therefore the related goodwill is not impaired. According to management a reasonably possible change in discount rate or in the level of earnings would not cause Russian cash generating unit's carrying amount to exceed its recoverable amount.

The main items in other intangible assets are costs for software products and software licenses, which are amortised over their useful lives. Other intangible assets also include bought emission rights and emission rights received free of charge, which are recognised to the lower of fair value and historical cost. The amount of emission rights in intangible assets is EUR 14 million (2008: 14).

21 Property, plant and equipment

EUR million	Land, waterfall rights and tunnels	Buildings, plants and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Cost 1 January 2009	2,684	2,520	11,720	198	1,011	18,133
Exchange rate differences and other adjustments	156	60	354	4	21	595
Increases through business combinations	-	-	2	-	-	2
Capital expenditure	1	111	229	2	499	842
Nuclear asset retirement cost	-	-	-7	-	-	-7
Disposals	-1	-18	-23	-2	-56	-100
Reclassifications	0	79	295	4	-384	-6
Cost 31 December 2009	2,840	2,752	12,570	206	1,091	19,459
Accumulated depreciation 1 January 2009	-	1,082	4,785	128	-	5,995
Exchange rate differences and other adjustments	-	21	163	4	-	188
Increases through business combinations	-	-	-	-	-	-
Disposals	-	-12	-56	-1	-	-69
Depreciation for the period	-	86	396	5	-	487
Impairment charges	-	3	0	0	-	3
Reclassifications	-	4	-4	-	-	0
Accumulated depreciation 31 December 2009	-	1,184	5,284	136	-	6,604
Carrying amount 31 December 2009	2,840	1,568	7,286	70	1,091	12,855

Property, plant and equipment has increased during 2009. The increase is mostly due to the ongoing investment programme in OAO Fortum and Heat segment's building of four CHP plants of which two were taken into commercial use during 2009 and two are still under construction. The strengthening of currencies, mainly SEK, also contributed to increase in property, plant and equipment.

➤ For more information on credit risk regarding ongoing investments, see Note 3.10 Credit risk, on page 132.

Property, plant and equipment that are subject to restrictions in the form of real estate mortgages amounts to EUR 357 million (2008: 343).

➤ See Note 38 Pledged assets on page 168.

EUR million	Land, waterfall rights and tunnels	Buildings, plants and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Cost 1 January 2008	3,059	2,373	11,385	217	578	17,612
Exchange rate differences and other adjustments	-395	-264	-1,340	-16	-154	-2,169
Increases through business combinations	-	341	1,196	-	183	1,720
Capital expenditure	18	54	183	3	841	1,099
Nuclear asset retirement cost	-	-	22	-	-	22
Disposals	-1	-32	-103	-1	-9	-146
Reclassifications	3	48	377	-5	-428	-5
Cost 31 December 2008	2,684	2,520	11,720	198	1,011	18,133
Accumulated depreciation 1 January 2008	-	1,073	5,059	137	-	6,269
Exchange rate differences and other adjustments	-	-109	-634	-13	-	-756
Increases through business combinations	-	62	28	-	-	90
Disposals	-	-23	-78	-1	-	-102
Depreciation for the period	-	79	410	5	-	494
Impairment charges	-	-	-	-	-	-
Accumulated depreciation 31 December 2008	-	1,082	4,785	128	-	5,995
Carrying amount 31 December 2008	2,684	1,438	6,935	70	1,011	12,138

21.1 Capitalised borrowing costs

	Machinery and equipment		Advances paid and construction in progress		Total	
EUR million	2009	2008	2009	2008	2009	2008
1 January	13	16	23	2	36	18
Increases	-	-	30	21	30	21
Reclassification	9	-	-9	-	0	-
Depreciation	-1	-3	-	-	-1	-3
31 December	21	13	44	23	65	36

New borrowing costs of EUR 30 million were capitalised in 2009 (2008: 21) for the OAO Fortum investment program, and for CHP-plant projects in Finland, Poland, Estonia and Latvia. The interest rate used for capitalisation varied between 5.4–11.0% (2008: 5.0–8.9%) depending on country and loan currency.

21.2 Capital expenditure ¹⁾

	Finland		Sweden		Other countries		Total	
EUR million	2009	2008	2009	2008	2009	2008	2009	2008
Power								
Hydropower	4	11	49	52	-	-	53	63
Nuclear power	35	57	-	-	-	-	35	57
Fossil-based power	3	6	-	-	-	4	3	10
Other	6	3	-	1	-	-	6	4
Total Power	48	77	49	53	-	4	97	134
Heat								
Fossil-based heat	53	54	17	16	66	82	136	152
Fossil-based power	37	25	-	-	-	2	37	27
Renewable	21	11	24	29	32	23	77	63
District heating network	14	34	56	82	18	20	88	136
Other	0	-	20	19	0	11	20	30
Total Heat	125	124	117	146	116	138	358	408
Distribution	79	83	98	200	11	13	188	296
Markets	1	1	-	2	-	-	1	3
Other	2	11	-	-	1	-	3	11
Total excluding Russia	255	296	264	401	128	155	647	852
Russia								
Fossil-based power							199	240
Fossil-based heat							16	16
Total Russia							215	256
Total including Russia							862	1,108

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

Maintenance investments during 2009 in property, plant and equipment were EUR 139 million (2008: 170). Investments due to requirements of legislation were EUR 129 million (2008: 147). Investments increasing productivity were EUR 138 million (2008: 220) and growth investments were EUR 456 million (2008: 572).

21.2.1 Power

In Finland, Fortum invested EUR 35 million (2008: 57) into the Loviisa nuclear power plant. Fortum continued to invest EUR 20 million (2008: 28) into several hydro projects, focusing on growth and productivity. The biggest of these was Eldforsen in Sweden, EUR 6 million (2008: 8). Power segment invested additionally EUR 42 million (2008: 50) into refurbishment type investments.

21.2.2 Heat

There have been four ongoing CHP plant construction projects during 2009, two of these, Suomenoja plant in Espoo, Finland and the Tartu CHP plant in Estonia, were taken into commercial use during 2009. Fortum has a 60% stake of the Tartu plant. The Częstochowa plant in Poland and Pärnu plant in Estonia are still under construction. Growth investments in Heat segment are EUR 262 million, which is EUR 47 million less than in 2008. Refurbishment and other investments are EUR 96 million in this segment, which is EUR 10 million less than in 2008. This amount consists mainly of investments in district heat networks, new connections as well as the maintenance of existing CHP plants.

21.2.3 Distribution

Distribution invested EUR 188 million (2008: 296) in reliability of power delivery, maintenance and new investments in Finland, Sweden, Norway and Estonia.

In 2006 Fortum started the large-scale Automatic Meter Management (AMM) implementation project in Sweden. The project was completed during 2009 and during the project a total of 844 thousand meters was installed of which some 40 thousand in 2009. In 2009 Fortum invested EUR 17 million (2008: 104) into this project.

21.2.4 Russia

OAo Fortum has an extensive investment programme aiming to increase its power capacity with 2,300 MW. During 2009 EUR 186 million (2008: 250) was invested in this programme. The value for the remaining part of the programme is estimated to be EUR 1.8 billion from January 2010 onwards.

21.3 Assets leased in by finance lease agreements

EUR million	2009	2008
Acquisition cost	54	53
Accumulated depreciation at 1 January	-14	-10
Depreciation charge for the year	-4	-4
Total	36	39

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

Fortum acts also as a lessor and has leased out property, plant and equipment for EUR 60 million (2008: 70), which are not included in property, plant and equipment in the consolidated financial statements.

21.4 Assets leased out by operating lease agreements

EUR million	2009	2008
Acquisition cost	179	174
Accumulated depreciation at 1 January	-106	-99
Depreciation charge for the year	-7	-7
Total	66	68

Assets leased out by operating lease agreement consist mainly of Meri-Pori power-plant, where Fortum has leased out its 308 MW share in the power plant from January 2007 to the end of June 2010.

22 Participations in associated companies and joint ventures

EUR million	2009	2008
Historical cost		
1 January	1,655	1,721
Exchange rate differences and other adjustments	-36	-94
Acquisitions	33	7
New share issues and shareholders' contributions	25	1
Increase through acquisition of subsidiaries	0	36
Reclassifications	-7	-3
Divestments	-1	-13
Historical cost 31 December	1,669	1,655
Equity adjustments to participations in associates and joint ventures		
1 January	457	1,132
Exchange rate differences and other adjustments	109	-122
Share of profits of associates	21	126
Dividends received	-32	-51
Fair value and other adjustments in equity	-36	-628
Equity adjustments 31 December	519	457
Total	2,188	2,112

The carrying amount of investments in associated companies at the end of 2009 was EUR 2,188 million (2008: 2,112). Fortum owns shares in one (2008: one) company classified as joint venture. The total carrying value of this joint venture was EUR 42 million (2008: 40).

22.1 Investments

Fortum and (Norwegian) Hafslund Infratek ASA combined their businesses of construction and operating of infrastructure in Sweden, Finland and Norway at the beginning of 2009. Fortum received newly issued shares in Hafslund Infratek ASA resulting in 33% ownership in the new combined company.

Teollisuuden Voima Oyj's (TVO) Annual General meeting decided to raise the company's share capital by EUR 100 million of which Fortum's share is EUR 25 million. Increase in Fortum's participation in TVO was paid in 2009.

In 2008 Fortum acquired a 14.73% share in UAB Klaipedos Energija from Stadtwerke Leipzig GmbH. Fortum now owns a 19.63% share of the company. UAB Klaipedos Energija generates and distributes district heat to the residents and industries in the cities of Klaipeda and Gargzdai. The net sales of the company was around EUR 27 million, annual heat sales 1 TWh and power sales 20 gigawatthours (GWh). The investment was EUR 7 million.

Through the acquisition of OAO Fortum in March 2008, Fortum acquired a shareholding in Kurgan Generating Company.

22.2 Divestments

No major divestments of associated companies were made in 2009.

Fortum has agreed to divest its shares in Swedegas AB in the first quarter of 2010.

During 2008 Fortum sold its 50% shareholding in Panjin Liaohe Thermal Power Company Co in China and its 30% shareholding in Polartest Oy and its 33% shareholding in Herbrechtingen GmbH.

22.3 Share of profits from associates

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

Fortum's share of profits from associates for 2009 amounts to EUR 21 million (2008: 126), of which Hafslund represents EUR -4 million (2008: 48) and TGC-1 EUR 19 million (2008: 17). Share of profits from associates also includes Fortum's share of the Swedish nuclear associates Forsmarks Kraftgrupp AB and OKG AB with EUR -16 million (2008: 47), of which EUR -6 million (2008: 42) is due to accounting of nuclear related assets and liabilities.

➤ See Note 33 Nuclear related assets and liabilities on page 163.

Hafslund sold 18 million shares in REC in November 2009. In accordance with the accounting policy Fortum recognised a EUR 13 million gain in relation to Hafslund's divestment of REC shares as a part of the share of profit from associates and joint ventures in 2009. According to Fortum group accounting policies, the share of profits from Hafslund has been included in Fortum Group figures based on the previous quarter information.

22.4 Dividends received

Dividends received include dividend from Hafslund amounting to EUR 17 million (2008: 24).

22.5 Fair value adjustments in equity

When calculating the share of profits in Fortum's associated company Hafslund ASA, Fortum, in accordance with Fortum's accounting policies, reclassified Hafslund's accounting treatment for the shareholdings in REC from year 2006 until 19 November 2008. Until that date Hafslund has classified the shareholdings in REC as financial assets at fair value through profit and loss, while Fortum classified the shareholdings as available for sale financial assets with fair value changes directly through equity. After 19 November 2008 both companies classify the REC shareholding as available for sale financial assets with fair value changes directly through equity. Only if Hafslund would divest shares in REC would the cumulative fair value change effect Fortum's income statement. Since REC is listed in the Oslo stock exchange, Fortum is accounting for the fair value change in the share price in Oslo stock exchange at each closing date. The amount of shares is based on the amount published by Hafslund in the previous quarter if other information is not available.

The cumulative fair value change booked in Fortum's equity and based on the remaining number of shares reported by Hafslund was EUR 89 million at the end of the year 2009 (2008: 126).

22.6 Principal associated companies

EUR million			Participation, %		Carrying amount in Group	
Company	Segment	Domicile	2009	2008	2009	2008
Kemijoki Oy	Power	Finland	18	18	243	250
Teollisuuden Voima Oyj (TVO)	Power	Finland	26	26	232	220
OKG AB	Power	Sweden	46	46	131	131
Forsmarks Kraftgrupp AB	Power	Sweden	26	26	112	110
Gasum Oy	Heat	Finland	31	31	123	105
Fingrid Oyj	Distribution	Finland	25	25	112	99
Territorial Generating Company 1 (TGC-1)	Russia	Russia	26	26	399	394
Hafslund ASA	Other	Norway	34	34	483	488
Others					353	315
Total					2,188	2,112

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

TVO has three series of shares which entitle the shareholders to electricity produced in the different power plants owned by TVO. Series A entitles to electricity produced in nuclear power plants Olkiluoto 1 and 2, series B entitles to electricity in the nuclear power plant presently being built, Olkiluoto 3, and series C entitles to electricity produced in TVO's share of the thermal power plant Meri-Pori. The Meri-Pori power

plant is a jointly controlled asset between Fortum and TVO. Fortum accounts for its 54.55% of the assets and TVO for 45.45%.

⊕ See also jointly controlled assets in Note 1.12.1 in Accounting principles on page 119.

Fortum owns 25.7% of the shares in Territorial Generating Company 1, TGC-1. TGC-1 was formed in late 2006 by mergers of several Russian companies. The company published its IFRS financial statements for 2008 in July 2009 and half-year IFRS financial statements for Q1-Q2/2009 in October 2009. Fortum accounted for its share of profits for 2008 in Q3 and for the first half of 2009 in Q4. According to Fortum's accounting policy the share of TGC-1's profits is recognised based on the most recently published IFRS financial statements.

Market value, based on market quotations of listed principal associated companies on 31 December (Hafslund ASA and TGC-1) was EUR 932 million (2008: 572), of which Hafslund was EUR 554 million and TGC-1 was EUR 378 million. The market quotation for the TGC-1 share is effected by the low liquidity of the TGC-1 shares in the Russian stock exchanges in 2009 and 2008. During 2009 trading volumes of TGC-1 shares in relation to the number of shares of the company were approximately 16% in Russian Stock Exchanges (less than 0.03% since August in 2008).

Assets, liabilities, sales and profit and loss as presented by the Group's principal associates are as follows

EUR million

Company	Domicile	Assets	Liabilities	Sales	Profit/ loss	owner- ship, %	votes, %
Kemijoki Oy ^{1) 4)}	Finland	435	306	45	-7	18	18
Teollisuuden Voima Oyj ^{1) 3)}	Finland	5,103	4,224	149	-26	26	26
OKG AB ^{1) 4)}	Sweden	1,537	1,525	399	1	46	46
Forsmarks Kraftgrupp AB ^{1) 4)}	Sweden	1,305	1,273	458	0	26	26
Gasum Oy ²⁾	Finland	656	267	742	48	31	31
Fingrid Oyj ²⁾	Finland	1,597	1,175	255	15	25	33
Territorial Generating Company 1 (TGC-1) ³⁾	Russia	1,961	516	482	54	26	26
Hafslund ASA ²⁾	Norway	3,503	2,087	871	35	34	33

1) Power plants are often built jointly with other power producers. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership or other agreements and each owner is liable for an equivalent portion of costs. The associated companies are not profit making, since the owners purchase electricity at production cost including interest cost, production and income taxes. (Note 10 Materials and services on page 142 and Note 43 Related party transactions on page 170).

2) Based on September 2009 figures. Gasum Oy reports profit before taxes. The figure has been decreased with nominal tax 26% in this table.

3) Based on June 2009 figures.

4) Based on December 2008 figures.

22.7 Transactions and balances

Associated company transactions

EUR million	2009	2008
Sales to associated companies	86	113
Interest on associated company loan receivables	37	34
Purchases from associated companies	555	563

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

⊕ See Note 10 Materials and services on page 142.

⊕ See Note 43 Related party transactions on page 170.

Associated company balances

EUR million	2009	2008
Receivables from associated companies		
Long-term interest-bearing loan receivables	852	659
Trade receivables	14	24
Other receivables	5	5

Liabilities to associated companies

Long-term loan payables	199	184
Trade payables	23	26
Other payables	22	18

Long-term interest-bearing receivables are mainly from Swedish nuclear companies, OKG AB and Forsmarks Kraftgrupp AB, EUR 786 million (2008: 594). Investments in Swedish nuclear companies are financed through loans from owners of the nuclear companies, pro rata ownership.

Transactions and balances with joint ventures

EUR million	2009	2008
Purchases	1	1
Receivables from joint ventures	4	3

There were no outstanding loans receivable from joint ventures on 31 December 2009 or 2008.

23 Other non-current assets

EUR million	2009	2008
Available for sale financial assets	44	40
Other	25	18
Total	69	58

Available for sale financial assets, i.e. shares which are not classified as associated companies or joint ventures, consist mainly of shares in unlisted companies of EUR 43 million (2008: 39), for which the fair value can not be reliably determined. These assets are measured at cost less possible impairment.

Available for sale financial assets include listed shares at fair value of EUR 1 million (2008: 1). The cumulative fair value change booked in Fortum's equity was EUR -1 million (2008: -1).

24 Long-term and short-term interest-bearing receivables

EUR million	2009	2008
Long-term loan receivables	854	672
Finance lease receivables	64	70
Total long-term interest-bearing receivables	918	742
Other short-term interest-bearing receivables	12	46
Short-term finance lease receivables	13	11
Total short-term interest-bearing receivables ¹⁾	25	57
Total	943	799

1) Included in trade and other receivables in the balance sheet, see Note 26 on page 156.

Long-term loan receivables include receivables from associated companies EUR 852 million (2008: 659), mainly from Swedish nuclear companies, OKG AB and Forsmarks Kraftgrupp AB, EUR 786 million (2008: 594). These companies are mainly funded with shareholder loans, pro rata each shareholder's ownership. The increase is related to investments made according to plan in OKG AB and Forsmarks Kraftgrupp AB.

Long-term loan receivables also include receivables from Teollisuuden Voima Oyj (TVO) amounting to EUR 45 million (2008: 45). Olkiluoto 3, the nuclear power plant being built by the associated company TVO, is funded through external loans, share issues and shareholder loans according to shareholders' agreements between the owners of TVO. In March 2009, TVO's shareholders committed to providing a EUR 300 million subordinated shareholder's loan to TVO. The facility will be available until the end of 2013. Fortum's share of this commitment is at maximum EUR 75 million.

➤ For further information regarding credit risk management see Note 3.10 Credit risk on page 132.

24.1 Interest-bearing receivables

EUR million	Effective interest rate	Carrying amount 2009	Repricing under 1 year	Repricing 1-5 years	Repricing over 5 years	Fair value 2009	Carrying amount 2008	Fair value 2008
Long-term loan receivables	5.0	854	853	1	-	886	672	686
Finance lease receivables	7.4	77	39	7	31	94	81	100
Total long-term interest-bearing receivables ¹⁾	5.2	931	892	8	31	980	753	786
Other short-term interest-bearing receivables	0.1	12	12	-	-	12	46	46
Total interest-bearing receivables	5.1	943	904	8	31	992	799	832

1) Including current portion of long-term receivables.

On 31 December 2009 Fortum held mortgages as collateral for other interest-bearing receivables amounting to EUR 0 million (2008: 11).

24.2 Finance lease receivables

Fortum owns assets (mainly CHP and heating plants) that it leases to customers under financial leasing agreements in Finland, Sweden, Norway and Estonia. These assets are recorded at the gross investment cost in the lease, less unearned financial income. The average lease term is approximately 14 years. Of all contracts, 2% carry a floating interest rate and 98% a fixed rate.

Present value of future minimum lease payment receivables

EUR million	2009	2008
Gross investment in finance lease contracts	102	110
Less unearned finance income	25	29
Total	77	81

Maturity of finance lease receivables

EUR million	2009	2008
Gross investment		
Less than 1 year	17	16
1-5 years	60	66
Over 5 years	25	28
Total	102	110

Maturity of present value of future minimum lease payments receivables

EUR million	2009	2008
Less than 1 year	13	11
1-5 years	44	48
Over 5 years	20	22
Total	77	81

No contingent rents were recognised in income statement neither in 2009 nor in 2008.

25 Inventories

EUR million	2009	2008
Nuclear fuel	69	78
Coal	184	189
Oil	40	35
Biofuels	61	59
Other inventories	93	83
Total	447	444

No impairment costs have been booked related to inventories neither in 2009 nor in 2008.

26 Trade and other receivables

EUR million	2009	2008
Trade receivables	784	849
Income tax receivables	16	94
Accrued interest income	1	9
Accrued income and prepaid expenses	46	94
Other receivables	158	132
Short-term finance lease receivables ¹⁾	13	11
Other short-term interest-bearing receivables ¹⁾	12	46
Total	1,030	1,235

¹⁾ See also Note 24 Long-term and short-term interest-bearing receivables on page 155.

The management considers that the carrying amount of trade and other receivables approximates their fair value.

26.1 Trade receivables

Ageing analysis of trade receivables

EUR million	2009		2008	
	Gross	Impaired	Gross	Impaired
Not past due	730	2	811	-
Past due 1–90 days	51	4	37	2
Past due 91–180 days	8	2	5	2
Past due more than 181 days	42	39	34	34
Total	831	47	887	38

Impairment losses recognised in the income statement were EUR 11 million (2008: 11), of which EUR 5 million (2008: 8) are impairment losses recognised in OAO Fortum Group. On 31 December 2009, trade receivables of EUR 47 million (2008: 38) were impaired and provided for, of which EUR 33 million (2008: 26) refers to OAO Fortum Group.

➤ For information regarding impairment losses by segment, see Note 5 Segment reporting on page 134.

Trade receivables by currencies

EUR million	2009	2008
EUR	265	318
SEK	372	399
NOK	29	37
USD	0	1
PLN	28	29
RUB	100	74
Other	37	29
Total	831	887

Trade receivables are arising from a large number of customers mainly in EUR and SEK mitigating the concentration of risk. Fortum held on 31 December 2009 bank guarantees as collaterals for trade receivables amounting to EUR 6 million (2008: 8).

➤ For further information regarding credit risk management and credit risks, see 2.2.9 Counterpart risks on page 101 in the Operating and financial review and Note 3.10 Credit risk on page 132.

27 Liquid funds

EUR million	2009	2008
Cash at bank and in hand	154	77
Bank deposits with maturity under 3 months	339	656
Cash and cash equivalents	493	733
Bank deposits with maturity more than 3 months	397	588
Total	890	1,321

Short-term and long-term bank deposits include bank deposits held by OAO Fortum amounting to EUR 229 million and EUR 397 million respectively (2008: 426 and 588 respectively). Of OAO Fortum's short-term deposits at the year end 2009, EUR 190 million were euros and EUR 39 million Russian roubles. All long-term deposits were in euros. The funds in OAO Fortum are committed to the investment programme to further increase OAO Fortum's electricity production capacity. The bank deposits in euros held by OAO Fortum are hedging future payments in euros.

Maturity of cash and cash equivalents is under 3 months.

➤ For further information regarding credit risk management and credit risks, see 2.2.9 Counterpart risks on page 101 in the Operating and financial review and Note 3.10 Credit risk on page 132.

28 Share capital

EUR million	2009		2008	
	Number of shares	Share capital	Number of shares	Share capital
Registered shares at 1 January	887,638,080	3,044	886,683,058	3,040
Shares subscribed with options and registered by year-end	728,965	2	955,022	4
Registered shares at 31 December	888,367,045	3,046	887,638,080	3,044
Unregistered shares	-	-	56,000	-

Fortum has one class of shares. By the end of 2009, a total of 888,367,045 shares had been issued. The nominal value of the shares is EUR 3.40 and each share entitles the holder to one vote at the Annual General Meeting. All shares entitle holders to an equal dividend. At the end of 2009 Fortum Corporation's share capital, paid in its entirety and entered in the trade register, was EUR 3,046,185,953.00.

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

Fortum Corporation's shares are listed on NASDAQ OMX Helsinki. The trading code is FUM1V. Fortum Corporation's shares are in the Finnish book entry system maintained by the Euroclear Finland Ltd.

At the beginning of 2009, the Finnish State owned 50.80% of the Company's shares. After the changes in amount of shares during 2009, increase in amount of shares due to the share subscriptions under stock option schemes for key employees, the Finnish State owned 50.76% of the company's shares at the end of the year. The Finnish Parliament has authorised the Government to reduce the Finnish State's holding in Fortum Corporation to no less than 50.1% of the share capital and voting rights.

At the end of 2009, the President and CEO and other members of the Fortum management team owned 185,345 shares (2008: 354,238), representing approximately 0.02% (2008: 0.04%) of the shares in the Company.

⊕ A full description of Fortum's equity incentive schemes is shown in Note 29 together with details on the President and CEO and other members of the Fortum management team's shareholdings and interest in the equity incentive schemes on page 157. A description of shares, share capital and shareholders in Fortum is shown in the Operating and financial review on page 103.

28.1 Treasury shares

At the end of 2009, Fortum Corporation did not own its own shares and the Board of Directors of Fortum Corporation has no unused authorisations from the General Meeting of shareholders to repurchase the company's own shares.

28.2 Convertible bond loans, bonds with warrants and unused authorisations

Fortum Corporation has not issued any convertible bonds or bonds with attached warrants, which would entitle the bearer to subscribe for Fortum shares. The Board of Directors of Fortum Corporation has today no unused authorisations from the General Meeting of shareholders to issue convertible bond loans or bonds with warrants or increase the company's share capital.

29 Employee bonus system, personnel fund and incentive schemes

29.1 Employee bonus system

Fortum's short-term incentive system (called annual bonus below) exists to support the Group's values, the achievement of financial targets and structural changes and to secure an alignment between the performance targets of the individual employee and the targets of the Group and business division. All Fortum employees are covered by the annual bonus system except for some employee groups in Poland and Russia.

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

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

⊕ For further information on bonus costs for senior management, see Note 12 Employee Costs and Management Remuneration on page 143.

29.2 Fortum Personnel Fund

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

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

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

The fund's latest financial year ended at 30 April 2009 and the fund then had a total of 3,155 members (2008: 3,187). At the end of April 2009 Fortum contributed EUR 4.7 million (2008: 4.3) to the personnel fund as an annual profit-sharing bonus based on

the financial results of 2008. The combined amount of members' shares in the fund was EUR 20.9 million (2008: 22.7).

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

29.3 Long-term incentive Schemes

Fortum's Management Performance Share Arrangement (LTI) is a performance-based, long-term incentive arrangement. The arrangement is a continuing incentive scheme divided into annual performance share plans. A new plan commences annually upon decision by the Board of Directors. The arrangement was launched in 2003 to support the achievement of the Group's long-term goals by attracting and retaining key personnel. In January 2008, the arrangement was further developed (called new arrangement below). The last plan under the previous arrangement (called previous arrangement below) was launched in 2007.

At present, approximately 160 managers, all of whom have been elected by the Board of Directors, are participants in at least one of the six on-going annual LTI plans. The 2006–2011 LTI plan is for non-stock option holders only.

29.3.1 Previous LTI arrangement (ongoing plans 2004–2009, 2005–2010, 2006–2011 and 2007–2012)

Plans under the previous arrangement start with a three-year earning period, during which the person earns annual bonus based on the performance of the Group, the relevant division and the achievements of the individual participant. After the earning period, following the announcement of the Group's annual results for the last calendar year, the amount of the potential reward as a calculative amount of share rights is decided by the Board of Directors. The value of share rights allocated to an individual participant cannot at that time exceed the participant's one-year salary including fringe benefits.

The earning period of the previous arrangement is followed by an approximately three year lock-up period which ends at the cash-settlement of the earned reward provided that the participant remains an employee in the Group. The potential reward under each annual LTI plan is adjusted during the lock-up period by any dividends paid up until the settlement date. The participant has approved that the earned reward will be used to acquire Fortum shares in the name of the participant deducted by income tax and statutory employment related expenses and insurance contributions payable by the participant on the reward.

29.3.2 New LTI arrangement (ongoing plans 2008–2012 and 2009–2013)

Performance share plans launched under the new LTI arrangement run over a five-year period. Each share plan begins with a three-year earning period, followed by a two-year lock-up period.

The participant has approved that the earned reward will be used to acquire Fortum shares in the name of the participant deducted by income tax and the statutory employment related expenses and insurance contributions payable by the participant on the reward. The individual number of shares delivered after the earning period is based on the achievement of the earnings criteria set by the Board of Directors. The earnings criteria are set annually, and may vary from year to year. The value in shares given to a participant after the three years earning period cannot at that time exceed the participant's one-year salary including fringe benefits following Cabinet Committee's Economic Policy.

During the lock-up period the shares may not be sold, transferred, pledged or disposed in any other way. Dividends and other financial returns paid on the shares during the lock-up period are, however, not subject to restrictions. The shares will be released from the lock-up after publishing of the Company's financial results for the fifth calendar year of an individual plan.

29.3.3 Accounting for LTI arrangements

Both LTI arrangements are treated as cash-settled arrangements in accordance with IFRS 2 Share-based payment. The expense is recognised during the vesting period with a corresponding increase in the liabilities. The fair value of the potential reward of outstanding share rights is measured based on the market value of Fortum share initially when the share participation is defined and at each closing date after that. Income tax and other statutory employment related expenses and insurance contributions payable by the participant will be deducted from the outstanding amounts at the payments.

The total LTI liability including accrual for social charges at the end of the year 2009 was EUR 28 million (2008: 22). The expense recorded in the employee costs for the period was EUR 5 million (2008: 19) netted with the change in the fair values of the hedge arrangements.

Under the previous LTI arrangement, in order to hedge the Group against the changes in the fair values of the potential rewards, the Group has entered into share forward transactions which are settled in cash. The change during year 2009 in the fair values of the ongoing hedge arrangements amounted to EUR 5 million (2008: -24). Under the new LTI arrangement Fortum has no obligation to hedge or otherwise protect the value of the shares for the participants during the lock-up period.

Fortum's performance share arrangements

Plan	2008	2009	2010	2011	2012	2013
2003–2008	6					
2004–2009	5	6				
2005–2010	4	5	6			
2006–2011	3	4	5	6		
2007–2012	2	3	4	5	6	
2008–2012	1	2	3	4	5	
2009–2013		1	2	3	4	5

	Earning period
	Lock-up period

Movements in the outstanding number of calculative share rights granted

	Plan 2006–2011	Plan 2005–2010	Plan 2004–2009	Plan 2003–2008
Outstanding at the beginning of the period 1 January 2009	0	309,920	496,177	518,496
Granted during the period	76,134	0	0	0
Dividend adjustments during the period	5,865	21,999	34,895	0
Payments during the period	–1,770	–7,591	–13,540	–511,780
Cancelled during the period	–8,300	–6,088	–12,720	–6,716
Outstanding at the end of the period 31 December 2009	71,929	318,240	504,812	0
Grant date	9.2.2009	8.2.2008	8.2.2007	13.2.2006
Grant price, EUR	15.19	27.54	20.99	19.07
Number of share rights granted	76,134	303,153	496,362	514,903
Estimated departures, %	4.52	4.52	4.52	4.52
Fortum share price at the end of the grant year, EUR	18.97	15.23	30.81	21.56

29.3.4 Shares delivered or to be delivered to the management

The calculative share rights with adjustment for dividends and after taxes (assumed tax deduction based on previous years) that the President and CEO and other members of the Fortum Management Team will receive in 2011 and 2012 are on 31 December as follows. For 2010 and 2009 the number of shares represent the actual number of shares delivered in February 2010 and February 2009.

Name	Year 2009	Year 2010	Year 2011	Year 2012
Tapio Kuula	8,682	8,422	5,661	-
Mikael Frisk	6,292	6,041	3,759	-
Timo Karttinen	5,174	5,166	3,272	-
Juha Laaksonen	7,227	7,014	5,170	-
Maria Paatero-Kaarnakari	2,643	2,539	1,745	-
Anne Brunila (from 1 October 2009)	-	-	-	-
Alexander Chuvaev (from 1 October 2009)	-	-	-	-
Per Langer (from 1 October 2009)	2,688	2,989	2,518	-
Matti Ruotsala (from 1 October 2009)	-	-	-	1,328
Mikael Lilius (until 30 April 2009)	22,423	-	-	-
Christian Lundberg (until 30 September 2009)	6,667	-	-	-
Maria Romantschuk (until 30 September 2009)	-	-	-	-

29.4 Stock option scheme for key employees (2002), expiry date 1 May 2009

In March 2002, a resolution was passed to issue a maximum of 25,000,000 stock options to key employees of the Fortum Group and to a wholly owned subsidiary of Fortum Corporation. Of the total number of stock options, 12,500,000 were marked with the letter A and were exercisable from 1 October 2004 through 1 May 2007, and 12,500,000 were marked with the letter B and were exercisable from 1 October 2006 through 1 May 2009. The Board of Directors could distribute stock options to the key personnel, only if the increase in Fortum Group's earnings per share (EPS) was at least five percent compared with the preceding period. The proportion of the annual maximum amount that became available for distribution was influenced by the Company's relative share price development compared to the European Utilities Index during a period of twelve calendar months preceding the month that the stock options were distributed.

The total number of stock options marked with a letter A listed on 1 October 2004 was 10,767,000. Each stock warrant entitled the holder to subscribe for one share. The warrants were exercisable during the period from 1 October 2004 through to 1 May 2007. By the end of the option 2002 A scheme in May 2007, a total of 10,767,000 shares were subscribed for and entered into the trade register. This scheme covered some 350 persons.

The total number of stock options marked with a letter B listed on 2 October 2006 was 10,003,000. Each stock warrant entitled the holder to subscribe for one share. The warrants were exercisable during the period from 2 October 2006 to 1 May 2009. By the end of the option 2002 B scheme in May 2009, a total of 10,003,000 shares were subscribed for and entered into the trade register. The scheme covered some 350 persons.

Movements in the outstanding stock options

	2009		2008	
	Weighted average exercise price, EUR	Number of options (thousand)	Weighted average exercise price, EUR	Number of options (thousand)
Outstanding at the beginning of the period	3.40	729	3.40	1,684
Exercised during the period	3.40	729	3.40	955
Outstanding 31 December		0		729
Exercisable 31 December		0		729

29.5 Management shareholding

On 31 December 2009, the members of the Supervisory Board of Fortum Corporation owned a total of 1,090 shares (2008: 690) or 0.0 % of the shares and voting rights. The members of the Board of Directors owned a total of 12,700 shares (2008: 38,991), which corresponds to 0.0% of the company's shares and voting rights.

The President and CEO and other members of the Fortum Management Team owned a total of 185,345 shares (2008: 354,238) which corresponds to approximately 0.02% (2008: 0.04%) of the company's shares and voting rights. The President and CEO and other members of the Fortum Management Team did not have any remaining stock options on 31 December 2009.

Shares held by members of the Board of Directors

	2009	2008
Chairman Matti Lehti (from 7 April 2009)	2,000	-
Chairman Peter Fagernäs (until 7 April 2009)	NA	30,591
Deputy chairman Sari Baldauf (from 7 April 2009)	2,300	NA
Esko Aho	-	-
Christian Ramm-Schmidt	3,500	3,500
Ilona Ervasti-Vaintola	4,000	4,000
Birgitta Johansson-Hedberg	900	900
Total	12,700	38,991

Shares held by members of Fortum Management Team

	2009	2008
Tapio Kuula	73,147	64,465
Mikael Frisk	31,642	25,350
Timo Karttinen	43,796	38,622
Juha Laaksonen	27,227	20,000
Maria Paatero-Kaarnakari	4,044	5,751
Anne Brunila (from 1 October 2009)	-	NA
Alexander Chuvaev (from 1 October 2009)	-	NA
Per Langer (from 1 October 2009)	5,489	NA
Matti Ruotsala (from 1 October 2009)	-	NA
Mikael Lilius (until 30 April 2009)	NA	170,050
Christian Lundberg (until 30 September 2009)	NA	30,000
Maria Romantschuk (until 30 September 2009)	NA	NA
Total	185,345	354,238

30 Non-controlling interests

Principal non-controlling interests

EUR million		2009	2008
AB Fortum Värme Holding samägt med Stockholms stad Group ¹⁾	Sweden	302	269
OAo Fortum Group	Russia	132	164
Tartu Energi Group	Estonia	8	5
Ekerö Energi Group	Sweden	-	4
Other		15	15
Total		457	457

1) Non-controlling interests for AB Fortum Värme Holding samägt med Stockholms stad Group has been restated for 2008 to include all non-controlling interests in the group.

Acquisitions during 2009 affecting non-controlling interests in the group consists mainly of the acquisition of the remaining 18,26% non-controlling interest part in Ekerö Energi Group. Fortum has also redeemed approximately 0,2% of additional shares in OAo Fortum. The remaining non-controlling interest part in OAo Fortum is 5.49%.

During 2008 Fortum acquired 93.4% of the shares in OAo Fortum, leaving 6.6% as a minority. Fortum also acquired 11% of the shares in Hofors Energi AB in Sweden, resulting in a 60% ownership.

Fortum owns, via Fortum Power and Heat AB, 90.1% of the shares which represents 50.1% of the votes in AB Fortum Värme Holding samägt med Stockholms stad. 9.9% of the shares are owned by the City of Stockholm. The City of Stockholm holds preference shares in AB Fortum Värme Holding samägt med Stockholms stad, which entitles them 50% of the economical output. The ownership and administration of AB Fortum Värme Holding samägt med Stockholms stad is settled by a consortium agreement.

31 Interest-bearing liabilities

EUR million	2009	2008
Bonds	3,665	2,495
Loans from financial institutions	1,024	3,016
Finance lease liabilities	24	26
Other long-term interest-bearing debt	1,289	983
Total long-term interest-bearing debt	6,002	6,520
Current portion of long-term bonds	501	422
Current portion of loans from financial institutions	33	31
Current portion of other long-term interest-bearing debt	12	1
Current portion of financial lease liabilities	3	6
Commercial papers	250	457
Other short-term interest-bearing debt	58	63
Total short-term interest bearing debt	857	980
Total	6,859	7,500

Interest-bearing debt

EUR million	Effective interest rate	Carrying amount 2009	Repricing under 1 year	Repricing 1-5 years	Repricing over 5 years	Fair value 2009	Carrying amount 2008	Fair value 2008
Bonds	4.6	4,166	842	1,755	1,569	4,724	2,918	2,925
Loans from financial institutions	1.6	1,057	1,037	20	-	1,090	3,047	3,115
Other long-term interest-bearing debt ¹⁾	1.7	1,328	1,322	6	-	1,349	1,015	1,032
Total long-term interest-bearing debt ²⁾	3.5	6,551	3,201	1,781	1,569	7,163	6,980	7,072
Commercial papers	1.2	250	250	-	-	251	457	467
Other short-term interest-bearing debt	5.2	58	58	-	-	60	63	64
Total short-term interest-bearing debt	1.9	308	308	-	-	311	520	531
Total interest-bearing debt ³⁾	3.5	6,859	3,509	1,781	1,569	7,474	7,500	7,603

1) Includes loans from State Nuclear Waste Management Fund and Teollisuuden Voima Oyj EUR 774 million (2008: 708), financial leases EUR 27 million (2008: 32), loans from Fortum's Finnish pension fund EUR 273 million (2008: 33) and other loans EUR 254 million (2008: 242).

2) Including current portion of long-term debt.

3) The average interest rate on loans and derivatives on 31 December 2009 was 3.4% (2008: 4.7%).

Fortum Oyj issued during the year a dual-tranche Euro Bond of EUR 750 million due 2014 and EUR 750 million due 2019 and a dual-tranche Private Placement of NOK 500 million due 2014 and NOK 500 million due 2017 (totally EUR 110 million) under Fortum's Euro Medium-Term Note Program. Fortum Oyj also raised a 10 year loan of EUR 250 million from the European Investment Bank to finance investment projects in Sweden and Poland. Fortum Oyj with its Finnish subsidiaries (mainly Fortum Power and Heat Oy) agreed a 10 year loan of EUR 240 million from Varma Mutual Insurance Company.

During the year Fortum Oyj repaid EUR 600 million under the EUR 1.5 billion 5 year revolving Credit Facility, amortised EUR 1,650 million of a 3 year EUR 2,000 million Term loan and bonds issued in 2006 of SEK 2,500 million (EUR 231 million). OAO Fortum repaid almost fully the RUB 5,000 million bond (EUR 112 million) and repaid RUB 2,937 million (EUR 67 million) on the RUB 3,000 million bond.

Issuance of Commercial Papers (CPs) in the Finnish and Swedish markets decreased in 2009, per year-end the amount of short-term CPs outstanding amounted to EUR 250 million (2008: 457). Debt in OAO Fortum amounted to the equivalent of EUR 29 million (2008: 259) as per year-end.

The reported interest-bearing debt decreased during the year by EUR 641 million to EUR 6,859 million (2008: 7,500). Liquid funds decreased by EUR 431 million to EUR 890 million (2008: 1,321) including liquid funds held by OAO Fortum amounting to EUR 632 million (2008: 1,020).

➔ For more information please see Note 3 Financial risk management on page 126, Note 38 Pledged assets on page 168 and Note 41 Contingent liabilities on page 169.

31.1 Bond issues

Issued/ Maturity	Interest basis	Interest rate	Effective interest	Currency	Nominal million	Carrying amount
Fortum Oyj EUR 5,000 Million EMTN Programme ¹⁾						
2003/2010	Fixed	4.625	4.728	EUR	500	500
2003/2013	Fixed	5.000	5.164	EUR	500	497
2006/2011	Fixed	3.750	3.793	SEK	2,000	195
2006/2016	Fixed	4.500	4.615	EUR	750	768
2007/2012	Floating	Stibor 3M+0.15		SEK	3,500	341
2007/2014	Fixed	4.700	4.764	SEK	2,600	253
2009/2014	Fixed	4.625	4.714	EUR	750	751
2009/2019	Fixed	6.000	6.095	EUR	750	741
2009/2014	Fixed	5.250	5.400	NOK	500	60
2009/2017	Fixed	6.125	6.240	NOK	500	59
OAO Fortum (former TGC-10)						
2007/2010	Fixed	7.600	7.745	RUB	3,000	1
2008/2013	Fixed	9.750	9.988	RUB	5,000	0
Total outstanding carrying amount 31 December 2009						4,166

1) EMTN = Euro Medium Term Note

OAO Fortum has two bond loans of totally RUB 8,000 million with final maturity 2010 and 2013. The loan documentation includes a put option, which gave bond holders the right to request redemption of the bonds in 2009 and after this they are almost fully repaid. In the balance sheet these bonds are classified as short-term.

31.2 Finance lease liabilities

On 31 December 2009 Fortum had a small number of finance lease agreements for machinery and equipment. No new leasing commitments were entered into in 2009 or 2008.

Present value of finance lease liabilities

EUR million	2009	2008
Minimum lease payments	32	43
Less future finance charges	5	11
Total	27	32

Maturity of minimum lease payments

EUR million	2009	2008
Less than 1 year	4	8
1–5 years	28	16
Over 5 years	-	19
Total	32	43

Maturity of finance lease liabilities

EUR million	2009	2008
Less than 1 year	3	6
1–5 years	24	9
Over 5 years	-	17
Total	27	32

32 Deferred income taxes

The movements in deferred tax assets and liabilities during 2009

EUR million	1 Jan 2009	Charged to income statement	Charged to other comprehensive income	Exchange rate differences, reclassifications and other changes	Acquisitions and disposals	31 Dec 2009
Deferred tax assets						
Property, plant and equipment	12	6				18
Provisions	16	-4		38	-1	49
Tax losses and tax credits carry-forward	31	9				40
Other	15	3				18
Total deferred tax assets	74	14		38	-1	125
Offset against deferred tax liabilities	-72	-6				-78
Net deferred tax assets	2	8		38	-1	47
Deferred tax liabilities						
Property, plant and equipment	1,694	-29		104	-1	1,768
Long-term loans	67	-35				32
Derivative financial instruments	118	-31	-117			-30
Current assets	12	21				33
Other	32	-7				25
Total deferred tax liabilities	1,923	-81	-117	104	-1	1,828
Offset against deferred tax assets	-72	-6				-78
Net deferred tax liabilities	1,851	-87	-117	104	-1	1,750

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred income tax liabilities of EUR 7 million (2008: 5) have been recognised for the withholding tax and other taxes that would be payable on all the undistributed earnings of Estonian subsidiaries. Undistributed earnings from these companies totalled EUR 26 million on 31 December 2009 (2008: 23).

Deferred tax assets and liabilities from disposals 2009 mainly refer to the divestment following Power segment's combining of the construction and operating of infrastructure business with Hafslund Infratek ASA.

The movements in deferred tax assets and liabilities during 2008

EUR million	1 Jan 2008	Charged to income statement	Charged to other comprehensive income	Exchange rate differences, reclassifications and other changes	Acquisitions and disposals	31 Dec 2008
Deferred tax assets						
Property, plant and equipment	10	3		-1		12
Provisions	19	-2		-1		16
Tax losses and tax credits carry-forward	20	11				31
Other	10	6		-1		15
Total deferred tax assets	59	18		-3		74
Offset against deferred tax liabilities	-56	-16				-72
Net deferred tax assets	3	2		-3		2
Deferred tax liabilities						
Property, plant and equipment	1,769	-93		-180	198	1,694
Long-term loans	0	67				67
Derivative financial instruments	-47	14	153	-2		118
Current assets	7	5				12
Other	14	19		-1		32
Total deferred tax liabilities	1,743	12	153	-183	198	1,923
Offset against deferred tax assets	-56	-16				-72
Net deferred tax liabilities	1,687	-4	153	-183	198	1,851

In December 2008 the Swedish Government passed legislation lowering the income tax rate from 28% to 26.3%. The one-time positive effect in the net deferred liabilities approximated EUR 81 million. Also in December 2008 the Russian Government passed legislation lowering the income tax rate from 24% to 20%. The one-time positive effect in the net deferred liabilities approximated EUR 32 million.

⊕ See also Note 15 Income tax expense on page 146.

Deferred income tax assets are recognised for tax loss carry-forward to the extent that realisation of the related tax benefit through future profits is probable. The recognized tax assets relate to losses carry-forward with no expiration date and partly with expiry date as described below.

Deferred income tax assets recognised for tax loss carry-forwards

	2009		2008	
EUR million	Tax losses	Deferred tax asset	Tax losses	Deferred tax asset
Losses without expiration date (Sweden, Norway)	27	4	110	28
Losses with expiration date (Poland, Belgium and Latvia)	105	36	18	3
Total	132	40	128	31

Deferred tax assets of EUR 19 million (2008: 14) have not been recognised in the consolidated financial statements, because the realisation is not probable. The major part of the unrecognised tax asset (EUR 9 million) relates to capital loss in UK, which has no expiration date. The rest of the unrecognised tax assets (EUR 10 million) relates to loss carry-forwards that are unlikely to be used in the foreseeable future.

33 Nuclear related assets and liabilities

Fortum owns the Loviisa nuclear power plant in Finland. Based on the Nuclear Energy Act in Finland, Fortum has a legal obligation to fully fund the legal liability decided by the governmental authorities, for decommissioning of the power plant and disposal of spent fuel through the State Nuclear Waste Management Fund. The text below should be read in conjunction with information in Note 1 Accounting policies on page 113.

EUR million	2009	2008
Amounts recognised in the balance sheet		
Nuclear provisions	570	566
Share in the State Nuclear Waste Management Fund	570	566
Legal liability and actual share of the State Nuclear Waste Management Fund		
Liability for nuclear waste management according to the Nuclear Energy Act	913	895
Funding obligation target	830	767
Fortum's share of the State Nuclear Waste Management Fund	786	728

33.1 Nuclear related provisions

The nuclear provisions are related to future obligations for nuclear waste management including decommissioning of the power plant and disposal of spent fuel. The fair values of the provisions are calculated according to IAS 37 based on future cash flows regarding estimated future costs for each of the provisions separately. The cash flows used are based on the cost estimates which are also the basis for the legal liability. Provisions for decommissioning and for disposal of spent fuel are both included in Nuclear provisions in the balance sheet.

In September 2009 Fortum submitted the yearly proposal for the nuclear waste management legal liability regarding the Loviisa nuclear power plant to the Ministry of Employment and the Economy. The legal liability is calculated according to the

Nuclear Energy Act in Finland and was decided by the Ministry of Employment and the Economy in January 2010. The liability is based on an updated cost estimate, which is done every year, and on a technical plan, which is made every third year. Following the annual update, the discounted liability decreased due to updated cost estimate and timing for the disposal of the spent fuel. The technical plan was updated last time in 2007 and the new technical plan with updated cost estimates is expected in 2010.

The legal liability by the end of 2009, decided by the Ministry of Employment and the Economy and calculated according to the Nuclear Energy Act, is EUR 913 million (2008: 895). The carrying value of the nuclear provisions in the balance sheet, calculated according to IAS 37, has increased by EUR 4 million compared to 31 December 2008, totalling EUR 570 million on 31 December 2009. The nuclear provision decreased by EUR 18 million during the last quarter 2009 due to an updated cost estimate. The main reason for the difference between the carrying value of the provision and the legal liability is the fact that the legal liability is not discounted to net present value.

The decrease of the provision for spent fuel caused a positive one-time effect of EUR 7 million in comparable operating profit in Q4 2009 (Q4 2008: -3 million) due to lower nuclear waste management costs related to already spent fuel. The decrease of the provision for spent fuel also caused a positive one-time effect in interest costs, due to unwinding of the provision for the period during which the spent fuel provision has been accumulated and present point in time, which are recognised immediately in the income statement.

The change of the provision for decommissioning is added to the nuclear decommissioning cost and depreciated over the remaining estimated operating time of the nuclear power plant. See Note 21 Property, plant and equipment on page 150.

Nuclear provisions

EUR million	2009	2008
1 January	566	516
Additional provisions	-4	34
Used during the year	-18	-16
Unwinding of discount	26	32
31 December	570	566
Fortum's share in the State Nuclear Waste Management Fund	570	566

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

Fortum contributes funds to the State Nuclear Waste Management Fund in Finland to cover future obligations based on the legal liability calculated according to the Finnish Nuclear Energy Act. The Fund is managed by governmental authorities. The carrying value of the Fund in Fortum's balance sheet is calculated according to IFRIC 5 Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

According to the Nuclear Energy Act, Fortum is obligated to contribute the funds in full to the State Nuclear Waste Management Fund to cover the legal liability. Based

on the law, Fortum applied for periodising of the payments to the Fund over six years, due to the proposed increase in the legal liability. The application was approved by the Council of State in December 2007.

The periodisation of the payments to the State Nuclear Waste Management Fund has an impact on cash flow, but also on operating profit since the carrying value of the Fund in the balance sheet cannot exceed the carrying value of the nuclear provisions according to IFRIC Interpretation 5. The Fund is from an IFRS perspective overfunded with EUR 216 million (2008: 162), since Fortum's share of the Fund on 31 December 2009 is EUR 786 million (2008: 728) and the carrying value in the balance sheet is EUR 570 million (2008: 566).

Operating profit for 2009 includes a negative total adjustment of EUR -59 million (2008: -19), since the value of the Fund has increased more than the carrying value of the provision. These adjustments are included in "Other items effecting comparability" in the Power segment, see Note 5 Segment reporting, and are not included in comparable operating profit. As long as the Fund stays overfunded from an IFRS perspective, positive accounting effects to Operating profit will always occur when the nuclear provision is increasing more than the net payments to the Fund. Negative accounting effects will occur when the net payments to the Fund are higher than the increase of the provision.

33.2.1 Funding obligation target

The funding obligation target for each year is decided by the Ministry of Employment and the Economy retrospectively in January each year after the legal liability has been decided. The difference between the funding obligation target for Fortum and Fortum's actual share of the State Nuclear Waste Management Fund is paid in Q1 each year.

The funding obligation target, corresponding to both the new legal liability and the new decision for periodisation to the Fund, amounts EUR 830 million (2008: 767). The difference between the legal liability at year end 2009 and the corresponding funding obligation target, EUR 44 million (2008: 39) is covered by a security which has been given in the end of June 2009. The real estate mortgages given also cover unexpected events according to the Nuclear Energy Act, see also Note 38 Pledged assets on page 168.

33.3 Borrowing from the Finnish State Nuclear Waste Management Fund

Finnish participants in the State Nuclear Waste Management Fund are allowed to borrow from the Fund according to certain rules. Fortum uses the right to borrow back and has pledged Kemijoki shares as security for the loan. The loans are renewed yearly.

➔ See also Note 31 Interest-bearing liabilities on page 161 and Note 38 Pledged assets on page 168.

33.4 Associated companies

Fortum has minority shareholdings in associated Finnish and Swedish nuclear production companies. The shareholdings entitle Fortum to electricity produced according

to consortium agreements. Fortum has for these companies accounted for its share of the effects from nuclear related assets and provisions according to Fortum accounting principles.

Fortum has at year-end received updated cash flow information for its nuclear associated companies Teollisuuden Voima Oyj, OKG AB and Forsmarks Kraftgrupp AB. Based on the updated cost estimates, the effect in share of profits was EUR -13 million in 2009 which included EUR -5 million due to decrease of the carrying value of the State Nuclear Waste Management Fund in Finland. In 2008, the effect in share of profits was EUR +42 million which included EUR +9 million due to the change of the carrying values of the Finnish (EUR -7 million) and Swedish Nuclear Waste Funds (EUR +16 million). The State Nuclear Waste Management Fund in Finland is overfunded whereas the value of the Swedish Nuclear Waste Fund is estimated to be slightly below the value of provisions at year-end 2009.

Fortum has according to law given guarantees to the Finnish and Swedish nuclear Funds on behalf of the associated companies, to guarantee that sufficient funds exist to cover future expenses of decommissioning of the power plants and disposal of spent fuel, see Note 41 Contingent liabilities on page 169.

Through the shareholding in TVO, Fortum uses the right to borrow from the Fund.

34 Other provisions

EUR million	CSA provision	Environmental	Other	Total
1 January 2009	180	8	20	208
Provisions for the period	-	2	17	19
Decreases through disposal of subsidiary companies	-	-	-1	-1
Provisions used	-	-	-4	-4
Provisions reversed	-	0	-9	-9
Unwinding of discount	14	0	-2	12
Exchange rate differences	-8	1	2	-5
31 December 2009	186	11	23	220
Allocation between current and non-current provisions				
Current provisions	-	-	11	11
Non-current provisions	186	11	12	209

EUR million	CSA provision	Environmental	Other	Total
1 January 2008	-	9	16	25
Provisions for the period	-	-	12	12
Increases through acquisition of subsidiary companies	192	-	3	195
Provisions used	-	-	-7	-7
Provisions reversed	-	-	-2	-2
Unwinding of discount	12	-	-	12
Exchange rate differences	-24	-1	-2	-27
31 December 2008	180	8	20	208
Allocation between current and non-current provisions				
Current provisions	-	-	9	9
Non-current provisions	180	8	11	199

Capacity supply agreement provision (CSA) is the possible penalty that the Russian System Operator can claim against Fortum if the extensive investment program of OAO Fortum to increase electricity capacity with 2,300 MW by 2013 is substantially delayed or agreed major terms in connection with the acquisition of OAO Fortum are not otherwise fulfilled.

Environmental provision relates to dismantling of buildings and structures on contaminated land. The provision is estimated to be used within five years. Other provisions include provisions for restructuring costs, insurance payments, tax claims and provisions for onerous contracts. The provision is estimated to be used within two to five years.

Restructuring provisions, included in other provisions, amounts to EUR 9 million (2008: 10). The restructuring provision relates to re-organisation of service functions in order to develop internal processes and aims to create more efficient and higher quality workflows. The main part of the restructuring provision is staff costs and the major part of the provision will be utilised in 2010.

35 Pension obligations

The Group companies have various defined benefit and defined contribution pension plans in accordance with the local conditions and practices in the countries in which they operate. The concerned pensions are primarily retirement pensions, disability pensions and family pensions but contain also early retirement arrangements.

In Finland the most significant pension plan is the Finnish Statutory Employment Pension Scheme (TyEL) in which benefits are directly linked to employees' earnings. These pensions are funded in insurance companies and treated as defined contribution plans. The benefits provided under TyEL are old age pensions, disability pensions, unemployment pensions and survivors' pensions. In addition, certain employees in the Group in Finland have additional pension coverage through the company's own pension fund or through insurance companies. These defined benefit plans are fully funded. The Fortum Pension Fund is a closed fund providing old age pension, disability

pension, survivor's pension and funeral grant. The additional pensions through insurance companies provide old age pension and funeral grant.

In Sweden the Group operates several defined benefit and defined contribution plans like the general ITP-pension plan and the PA-KL and PA-KFS plans that are eligible for employees within companies formerly owned by municipalities. The defined benefit plans are fully funded and have partly been financed through Fortum's own pension fund and partly through insurance premiums. The pension arrangements comprise normal retirement pension, complementary retirement pensions, survivors' pension and disability pension. The most significant pension plan is the ITP-plan for white-collar employees in permanent employment (or temporary employees after a certain waiting period), who fulfill the age conditions. To qualify for a full pension the employee must have a projected period of pensionable service, from the date of entry until retirement age, of at least 30 years.

In April 2008 Fortum transferred a majority of its pension liabilities previously financed through insurance premiums or through provisioning to a newly established own pension fund. Among the transferred pension arrangements were the major part of the general ITP-pension plan, all plans eligible for employees of formerly municipality-owned companies as well as certain other smaller arrangements. The total amount of transferred liability was at the time of transfer SEK 742 million (EUR 68 million). At the time of transfer Fortum paid contributions to the fund amounting to the same amount, in order to cover this liability.

During 2009 Fortum transferred the remaining part of its pension liabilities previously financed through provisioning to Fortum's own pension fund. The total amount of transferred liability was at the time of transfer SEK 259 million (EUR 25 million). At the time of transfer Fortum paid contributions to the fund amounting to the same amount, in order to cover this liability.

The part of the ITP multiemployer pension plan that is secured by paying pension premiums to Alecta, in Fortums case the collective family pension, is accounted for as a defined contribution plan due to that there is no consistent and reliable basis to allocate assets or liabilities to the participating entities within the ITP insurance. The reason for this is that it is not possible to determine from the terms of the plan to which extent a surplus or a deficit will affect future contributions.

The Norwegian companies are part of schemes that are common for municipalities in Norway. These are defined benefit pension plans and provide old age pensions, disability pension and survivor's pension, including pension benefits from the National Insurance Scheme (Folketrygden). The schemes are fully funded within the rules set out in the Norwegian insurance legislation.

Pension arrangements in Russia include payments made to the Russian Federation's state pension fund. These arrangements are treated as defined contribution plans. In addition the Russian companies participate in a non-state power industry pension fund as well as in certain defined benefit plans, defined by collective agreements, which are unfunded. The benefits provided under these arrangements include, in addition to pension payments, one-time benefits paid in case of employee mortality or disability as well as lump sum payments for anniversary and financial support to honored workers and pensioners.

In other countries the pension arrangements are done in accordance with the local legislation and practice, mostly being defined contribution plans.

The pension obligations are calculated annually, on the balance sheet date, based on actuarial principles. When accounting for defined contribution plans the obligation for each period is determined by the amounts to be contributed for that period. When accounting for defined benefit plans, actuarial calculations are required to measure the obligation on discounted basis and the expense. The plan assets for pensions are valued at market value. When the net cumulative unrecognised actuarial gain or loss on pension obligations and plan assets goes outside the corridor with 10% of the greater of either pension obligations or the market value of the plan assets, the surplus amount is amortised over the average remaining employment period.

Amounts recognised in the income statement

EUR million	2009	2008
Current service cost	-11	-11
Interest cost	-19	-20
Expected return on plan assets	20	20
Settlements	-1	1
Past service cost	0	-1
Actuarial gains and losses	-3	0
Curtailments	1	-
Total included in employee costs (Note 12)	-13	-11

The actual return on plan assets in Finland and Sweden totalled EUR 44 million (2008: -29).

Amounts recognised in the balance sheet

EUR million	2009	2008
Present value of funded obligations	406	393
Fair value of plan assets	-398	-343
Deficit (+) / Surplus (-)	8	50
Present value of unfunded obligations ¹⁾	3	13
Unrecognised past service cost	4	-4
Unrecognised actuarial gains and losses	-51	-67
Net asset (-) / liability (+) in the balance sheet	-36	-8
Defined benefit asset included in the assets	59	59
Total pension obligations	23	51
Defined benefit obligations	23	51
Defined benefit assets included in assets	-59	-59
Net asset (-) / liability (+)	-36	-8

Experience adjustments arising on funded obligations; gain (-) / loss (+)

Experience adjustments arising on plan assets; gain (+) / loss (-)

1) The unfunded obligation relates to arrangements in Russia. Comparable information has been reclassified accordingly.

Contributions expected to be paid during the year 2010 are EUR 14 million.

Movement in the present value of defined benefit obligations

EUR million	2009	2008
1 January	406	390
Exchange rate differences	16	-28
Increases through acquisition of subsidiary companies	-	11
Decreases through disposals of subsidiary companies	-21	-
Service cost	11	11
Interest cost	19	20
Past service cost	-7	4
Effect of settlement	-13	-1
Actuarial gains (-) / losses (+) on obligations	16	17
Benefits paid	-16	-18
Curtailments	-2	-
31 December	409	406

Movement in the fair value of plan assets

EUR million	2009	2008
1 January	343	276
Exchange rate differences	12	-6
Decreases through disposals of subsidiary companies	-13	-
Expected return of plan assets	20	20
Actuarial gains and losses	24	-44
Transfers to the Swedish pension fund	25	68
Contributions by employer	10	41
Effect of settlement	-9	-
Benefits paid	-14	-12
31 December	398	343

Fair value of plan assets comprise

EUR million	2009	2008
Equity instruments	164	101
Debt instruments	133	112
Property (of which EUR 72 million (2008: 71) occupied by the Group)	83	75
Company's own ordinary shares	6	4
Other assets	12	51
Total	398	343

When the pension plan has been financed through an insurance company, a specification of the plan assets has not been available. In these cases the fair value of plan assets has been included in the Other assets.

Amounts recognised in the balance sheet by country – 2009

EUR million	Finland	Sweden	Other countries	Total
Present value of funded obligations	211	169	26	406
Fair value of plan assets	-239	-144	-15	-398
Deficit (+) / Surplus (-)	-28	25	11	8
Present value of unfunded obligations	-	-	3	3
Unrecognised past service cost	-	-	4	4
Unrecognised actuarial gains and losses	-8	-38	-5	-51
Net asset (-) / liability (+) in the balance sheet	-36	-13	13	-36
Defined benefit asset included in the assets	45	14	0	59
Pension obligations in the balance sheet	9	1	13	23

Amounts recognised in the balance sheet by country – 2008

EUR million	Finland	Sweden	Other countries	Total
Present value of funded obligations	204	151	38	393
Fair value of plan assets	-222	-98	-23	-343
Deficit (+) / Surplus (-)	-18	53	15	50
Present value of unfunded obligations	0	0	13	13
Unrecognised past service cost	0	0	-4	-4
Unrecognised actuarial gains and losses	-16	-43	-8	-67
Net asset (-) / liability (+) in the balance sheet	-34	10	16	-8
Defined benefit asset included in the assets	46	13	0	59
Pension obligations in the balance sheet	12	23	16	51

Comparative pension information

EUR million	2009	2008	2007	2006
Present value of defined benefit obligation	409	406	390	361
Fair value of plan assets	-398	-343	-276	-250
Deficit/(surplus) in the plan	11	63	114	111
Experience adjustments on plan liabilities	-6	20	11	21
Experience adjustments on plan assets	22	-48	21	-10

The principal actuarial assumptions used

	2009				2008			
	Finland	Sweden	Russia	Other countries	Finland	Sweden	Russia	Other countries
Discount rate, %	5.00	4.00	9.25	4.40	5.50	4.30	9.00	4.30
Expected return on plan assets, %	5.92	4.85	NA	5.60	6.50	5.50	NA	5.80–6.30
Future salary increases, %	4.00	3.50	8.50	4.25	4.00	3.70	8.00	4.50
Future pension increases, %	2.10	2.00	7.00	4.00	2.10	2.20	6.50	1.75
Rate of inflation, %	2.00	2.00	7.00	2.25	2.00	2.20	6.50	2.50

The discount rate in Finland is based on high quality European corporate bonds with maturity that best reflects the estimated term of the defined benefit pension plans. The discount rate in Sweden, Russia and Norway is based on the yield of long-term government bonds which are consistent with the currency and the estimated term of the post-employment benefit obligations. The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected returns are based on long-term real rates of return experienced in the respective markets and reported by external asset manager.

The discount, inflation and salary growth rates used are the key assumptions used when calculating defined benefit obligations. Effects of 0.5 percentage point change in the rates to the defined benefit obligation on 31 December 2009, holding all other assumptions stable, are presented in the table below.

Sensitivity of defined benefit obligation to changes in assumptions

Change in the assumptions	Impact to the pension obligation increase +/- decrease -	
	Finland	Sweden
0.5% increase in discount rate	-6.0%	-8.5%
0.5% decrease in discount rate	6.7%	9.7%
0.5% increase in inflation rate	2.9%	7.4%
0.5% decrease in inflation rate	-2.7%	-6.7%
0.5% increase in salary growth rate	1.3%	2.1%
0.5% decrease in salary growth rate	-1.1%	-2.1%

36 Other non-current liabilities

EUR million	2009	2008
Connection fees	413	410
Other liabilities	59	60
Total	472	470

Connection fees to the electricity network in Finland that are paid before 2003 are refundable, if the customer would ever disconnect the initial connection. The connections fees to the electricity network amounted to EUR 307 million (2008: 307).

Refundable connection fees to the district heating network in Finland amounted to EUR 106 million (2008: 103).

37 Trade and other payables

EUR million	2009	2008
Trade payables	317	343
Accrued expenses and deferred income		
Personnel expenses	71	78
Interest expenses	121	86
Other accrued expenses and deferred income	84	158
Other liabilities		
VAT-liability	46	61
Current tax liability	81	22
Energy taxes	34	33
Advances received	88	87
Other liabilities	158	116
Total	1,000	984

The management considers that the amount of trade and other payables approximates fair value.

38 Pledged assets

EUR million	2009	2008
On own behalf		
For debt		
Pledges	293	229
Real estate mortgages	137	137
For other commitments		
Real estate mortgages	220	206
On behalf of associated companies and joint ventures		
Pledges and real estate mortgages	2	2

38.1 Pledged assets for debt

Finnish participants in the State Nuclear Waste Management Fund are allowed to borrow from the Fund. Fortum has during 2009 increased the loan from the fund and has pledged additional shares in Kemijoki as security. The value of the pledged shares is EUR 263 million on 31 December 2009 (2008: 208).

Pledges also include bank deposits as trading collateral of EUR 11 million (2008: 1) for trading of electricity and CO₂ allowances in Nord Pool and trading of CO₂ with Intercontinental Exchange (ICE) and European Energy Exchange (EEX).

Fortum Tartu in Estonia (60% owned by Fortum) has given real estate mortgages for a value of EUR 96 million (2008: 96) as a security for an external loan. Real estate mortgages have also been given for loans from Fortum's pension fund for EUR 41 million (2008: 41).

⊕ Regarding the relevant interest-bearing liabilities, see Note 31 Interest-bearing liabilities on page 161.

38.2 Pledged assets for other commitments

Fortum has given real estate mortgages in Naantali and Inkoo power plants in Finland for a value of EUR 220 million (2008: 206) as a security to the State Nuclear Waste Management Fund for the uncovered part of the legal liability and unexpected events relating to costs for future decommissioning and disposal of spent fuel in the wholly owned Loviisa nuclear power plant. The legal liability, based on the situation as of 31 December, is decided by the Ministry of Employment and the Economy in January the following year and the amount of the security is adjusted by the end of June.

⊕ See also Note 33 Nuclear related assets and liabilities on page 163.

39 Operating leases

39.1 Leases as lessor

The rental income recognised in income statement was EUR 28 million (2008: 25). The major part of the rental income derives from Meri-Pori power plant, where Fortum has leased out its 308 MW share of the power plant from January 2007 to the end of June 2010.

Future minimum lease payments receivable on operating leases

EUR million	2009	2008
Not later than 1 year	13	25
Later than 1 year and not later than 5 years	1	12
Later than 5 years	-	-
Total	14	37

39.2 Leases as lessee

Fortum leases office equipment and cars under various non-cancellable operating leases, some of which contain renewal options. The future costs for non-cancellable operating lease contracts are stated below. Lease rental expenses amounting to EUR 15 million (2008: 15) are included in the income statement in other expenses. Future minimum lease payments include land leases with long lease periods.

Future minimum lease payments on operating leases

EUR million	2009	2008
Not later than 1 year	23	28
Later than 1 year and not later than 5 years	35	47
Later than 5 years	93	86
Total	151	161

40 Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements

EUR million	2009	2008
Property, plant and equipment	1,326	1,321
Intangible assets	5	7
Total	1,331	1,328

The capital commitments have increased from 31 December 2008 due to the automatic meter reading investments in Distribution Finland as well as the progressing of OAO Fortum's investment program. On the other hand finalisation of the automatic meter reading investment in Distribution Sweden, decline of the Russian rouble and progressing of the CHP plant investments in the Heat business in Finland, Estonia and Poland have decreased the capital commitments since 31 December 2008.

⊕ For more information regarding capital expenditure, see Note 21 Property, plant and equipment on page 150.

41 Contingent liabilities

EUR million	2009	2008
On own behalf		
Other contingent liabilities	321	362
On behalf of associated companies and joint ventures		
Guarantees	592	565
Other contingent liabilities	125	125
On behalf of others		
Guarantees	12	10
Other contingent liabilities	1	1

41.1 Guarantees on own behalf

Other contingent liabilities on own behalf include guarantees issued for the fulfillment of various contractual obligations relating to Fortum's operation and maintenance business in the UK, amounting to a maximum of EUR 66 million (2008: 66). Fortum

has also given guarantees to suppliers, EUR 53 million (2008: 60) regarding the new CHP plant being built by business unit Heat in Częstochowa in Poland and EUR 158 million (2008: 173) regarding the investment program in OAO Fortum.

41.2 Guarantees on behalf of associated companies

Guarantees and other contingent liabilities on behalf of associated companies and joint ventures mainly consist of guarantees relating to Fortum's associated nuclear companies Teollisuuden Voima Oyj (TVO), Forsmarks Kraftgrupp AB (FKA) and OKG AB (OKG). The guarantees are given in proportion to Fortum's respective ownership in each of these companies.

According to law, nuclear companies operating in Finland and Sweden shall give securities to the Finnish State Nuclear Waste Management Fund and the Swedish Nuclear Waste Fund respectively, to guarantee that sufficient funds exist to cover future expenses of decommissioning of the power plant and disposal of spent fuel. In Finland, Fortum has given a guarantee on behalf of TVO to the Finnish State Nuclear Waste Management Fund amounting to EUR 67 million (2008: 70) to cover Fortum's part of TVO's uncovered part of the legal liability and for unexpected events.

In Sweden, Fortum has given guarantees on behalf of FKA and OKG to the Swedish Nuclear Waste Fund to cover Fortum's part of FKA's and OKG's liability. The total amount of guarantees relating to nuclear waste management in Sweden is SEK 5,314 million (EUR 518 million in 2009, EUR 489 million in 2008).

Meri-Pori power plant in Finland is owned by Fortum 54.55% and Teollisuuden Voima Oyj (TVO) 45.45%. Based on the participation agreement Fortum has to give a guarantee to TVO against possible loss of asset or breach in contract of TVO's share of the asset, EUR 125 million (2008: 125).

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

42 Legal actions and official proceedings

42.1 Group companies

Two subsidiaries of Fortum, Grangemouth CHP Limited and Fortum O&M (UK) Limited, are defendants in a court case regarding greenhouse gas emissions allowances in the High Court of Justice in London. Grangemouth CHP Limited is a party to an Electricity Supply Agreement with Ineos Manufacturing Scotland Limited, pursuant to which Grangemouth CHP Limited provides electricity from its CHP plant to the Grangemouth site in Scotland until April 2016. Ineos Manufacturing Scotland Limited claims that it is entitled to all of the emissions allowances allocated under the EU ETS scheme for greenhouse gas emission allowance trading with respect to the CHP plant. Grangemouth CHP Limited denies this claim. The case was stayed in 2008, but the stay was lifted in late 2009. The court decision is likely to be rendered in late 2010 or early 2011.

The Finnish Competition Authority gave on 2 June 2006 its conditional approval to the transaction by which Fortum acquired control in E.ON Finland Oyj. On 3 July 2006 Fortum appealed against the decision to the Market Court. In March 2008 the Finnish Market Court decision overruled the conditional decision given by the Finnish Competition Authority in June 2006 on the acquisition of E.ON Finland. In their ruling, the Market Court stated that the Finnish Competition Authority had no grounds for setting conditions, because Fortum cannot be considered to have a dominant position in the power generation and wholesale market. According to the Market Court, the relevant geographical market area in power generation and wholesale consists of at least Finland and Sweden. The Finnish Competition authority has appealed the decision to the Supreme Administrative Court.

In addition to the litigations described above, some Group companies are involved in disputes incidental to their business. In management's opinion the outcome of such disputes will not have material effect on the Group's financial position.

42.2 Associated companies

In Finland, Fortum is participating in the country's fifth nuclear power plant unit, Olkiluoto 3, through the shareholding in Teollisuuden Voima Oyj (TVO) with an approximately 25% share representing some 400 MW in capacity. In January 2009 the constructor TVO disclosed information, confirmed by the plant supplier, consortium AREVA-Siemens that the construction of the unit is delayed and the unit is estimated to start up in June 2012. In October 2009 TVO informed that the start-up of the plant may be postponed even beyond June 2012. TVO has requested a re-analysis of the time schedule from AREVA-Siemens. In June 2009, TVO informed that the arbitration filed in December by AREVA-Siemens, concerning Olkiluoto 3 delay and related costs, amounted to EUR 1.0 billion. In response, in April 2009 TVO filed a counter-claim for costs and losses that TVO is incurring due to the delay and other defaults on the part of the supplier. The value of TVO's counterclaim is currently approximately EUR 1.4 billion.

43 Related party transactions

43.1 Finnish State and companies owned by the Finnish State

At the beginning of 2009 the Finnish State owned 50.80% of the company and at the end of 2009 50.76%.

➔ See *The Fortum share and shareholders section of the Operating and Financial Review for further information on Fortum shareholders on page 103.*

All transactions between Fortum and other companies owned by the Finnish State are on arms length basis. In the ordinary course of business Fortum engages in transactions on commercial terms with associated companies and other related parties, which are on same terms as they would be for third parties, except for some associates as discussed later in this note.

43.2 Board of Directors and Fortum Management Team

Fortum has not been involved in any material transactions with members of the Board of Directors or Fortum Management Team. No loans exist to any member of the Board of Directors or Fortum Management Team at 31 December 2009. Members of the Board of Directors and Fortum Management Team holdings of options and shares are disclosed in Note 29 Employee bonus system, personnel fund and incentive schemes on page 157. Compensation to members of the Supervisory Board, the Board of Directors and Fortum Management Team are disclosed in Note 12 Employee costs and management remuneration on page 143.

43.3 Associated companies and joint ventures

Fortum owns shareholdings in associated companies and joint ventures which in turn own hydro and nuclear power plants. Under the consortium agreements, each owner is entitled to electricity in proportion to its share of ownership or other agreements. Each owner is liable for an equivalent portion of costs regardless of output. The associated companies are not profit making, since the owners purchase electricity at production cost including interest costs and income taxes, which generally is lower than market price.

⊕ *For further information on transactions and balances with associated companies and joint ventures, see Note 22 Participations in associated companies and joint ventures on page 152.*

44 Events after the balance sheet date

In December, Fortum agreed to sell its shares in the Swedish gas transmission company Swedegas AB. The transaction will take place in early 2010.

In January 2010, Fortum acquired the combined heat and power plant in the city of Nokia, Finland from Nokian Lämpövoima Oy. At the same time Fortum sold its shares in Nokian Lämpövoima Oy to Pohjolan Voima Oy (PVO).

In February 2010, Fortum signed an agreement to sell its 49% shareholding in Karlskoga Energi & Miljö AB to the Karlskoga municipality in Sweden for SEK 435 million (EUR 42 million).

Fortum has agreed to sell its shares in OJSC Kurgan Generating Company in Kurgan, Russia. Fortum expects the transaction to close and the ownership to be transferred during the first half of 2010.

45 Subsidiaries by segment on 31 December 2009

● = Power
 ■ = Heat
 ▲ = Distribution
 ○ = Markets
 □ = Russia
 ▼ = Other

1) Acquired
 2) Founded
 3) Shares held by the parent company

Corp. Name	Domicile	Segment	Group holding, %
Fortum Asiakaspalvelu Oy	³⁾ Finland	▲■○	100.0
Fortum Assets Oy	Finland	▼	100.0
Fortum BCS Oy	Finland	■	100.0
Fortum Espoo Distribution Oy	³⁾ Finland	▲	100.0
Fortum Heat and Gas Oy	³⁾ Finland	■▼	100.0
Fortum Hyötytuotanto Oy	Finland	●	100.0
Fortum Markets Oy	³⁾ Finland	○	100.0
Fortum Nuclear Services Oy	Finland	●	100.0
Fortum Portfolio Services Oy	Finland	○	100.0
Fortum Power and Heat Oy	³⁾ Finland	●■▲○□▼	100.0
Fortum Sähkösiirto Oy	³⁾ Finland	▲	100.0
Hexivo Oy	Finland	●	52.0
Imatran Voima Oy	Finland	▲	100.0
Imatrankosken Voima Oy	Finland	▲	100.0
Kiinteistö Oy Espoon Energiatalo	Finland	▼	100.0
Killin Voima Oy	Finland	●	60.0
Koillis-Pohjan Energiantuotanto Oy	Finland	●	100.0
Koskivo Oy	Finland	▲	100.0
KPPV-Sijoitus Oy	Finland	▲	100.0
Linnankosken Voima Oy	Finland	▲	100.0
Lounais-Suomen Lämpö Oy	Finland	▲	100.0
Mansikkalan Voima Oy	Finland	▲	100.0
Mäntynummen Lämpö Oy	Finland	■	58.3
Oy Pauken Ab	Finland	▼	100.0
Oy Tersil Ab	Finland	▲	100.0
Oy Tertrade Ab	Finland	▲	100.0
Rajapatsaan Voima Oy	Finland	▲	100.0
Saimaanrannan Voima Oy	Finland	▲	100.0
Tunturituuli Oy	Finland	●	55.4
Varsinais-Suomen Sähkö Oy	Finland	▲	100.0
Fortum EIF NV	³⁾ Belgium	■	100.0
Fortum Project Finance N.V.	³⁾ Belgium	▼	100.0
Fortum Energi A/S	Denmark	○	100.0
AS Anne Soojus	Estonia	■	60.0
AS Fortum Tartu	Estonia	■	60.0
AS Tartu Joujaam	Estonia	■	60.0
AS Tartu Keskkatlamaja	Estonia	■	60.0
Fortum CFS Eesti OU	Estonia	▼	100.0
Fortum Elekter AS	Estonia	▲	99.3
Fortum Termest AS	Estonia	■	99.7

Corp. Name	Domicile	Segment	Group holding, %
Lauka Turvas OU	Estonia	■	60.0
Fortum Service Deutschland GmbH	Germany	●	100.0
Fortum Direct Ltd	Great Britain	●	100.0
Fortum Energy Ltd	Great Britain	●	100.0
Fortum Gas Ltd	Great Britain	●	100.0
Fortum Insurance Ltd	Great Britain	▼	100.0
Fortum O&M (UK) Ltd	Great Britain	●	100.0
Grangemouth CHP Ltd	Great Britain	●	100.0
IVO Energy Ltd	Great Britain	●	100.0
Kildare Energy Ltd	Ireland	●	55.0
Fortum Jelgava SIA	Latvia	■	100.0
Fortum Latvija SIA	Latvia	■	100.0
UAB Fortum Ekosiluma	Lithuania	■	100.0
UAB Fortum Heat Lietuva	Lithuania	■	100.0
UAB Fortum Klaipeda	Lithuania	■	90.0
UAB Joniskio energija	Lithuania	■	66.0
UAB Svencioniu energija	Lithuania	■	50.0
Fortum L.A.M SNC.	²⁾ Luxembourg	■	100.0
Fortum Sendi Prima Sdn Bhd	Malaysia	●	100.0
Fortum Distribution AS	Norway	▲○	100.0
Fortum Fjernvarme AS	Norway	■	100.0
Fortum Förvaltning AS	Norway	●▼	100.0
Fortum Holding Norway AS	Norway	●■▲○	100.0
Fortum Leasing KS	Norway	■	100.0
Fortum Markets AS	Norway	○	100.0
Fortum NIT AS	¹⁾ Norway	▲	100.0
Mosjøen Fjernvarme AS	Norway	■	100.0
Fortum Częstochowa S.A.	Poland	■	100.0
Fortum Plock Sp z o.o.	Poland	■	99.5
Fortum Power and Heat Polska Sp.z.o.o	Poland	■▼	100.0
Chelyabinsk Energoremont	Russia	●	94.5
LLC Fortum Energy OOO Fortum Energija	Russia	●■	100.0
OAo Fortum	Russia	■	94.5
TGC-10 Invest	Russia	■	94.5
Tyumen Energoremont	Russia	●	94.5
Urals Heat Network	Russia	■	94.5
AB Fortum Värme Holding samägt med Stockholms stad	Sweden	■	50.1
AB Fortum Värme samägt med Stockholms stad	Sweden	■	50.1
AB Ljusnans Samkörning	Sweden	▲	80.0
Akallaverket AB	Sweden	■	37.6

- = Power
- = Heat
- ▲ = Distribution
- = Markets
- = Russia
- ▼ = Other

- 1) Acquired
- 2) Founded
- 3) Shares held by the parent company

Corp. Name	Domicile	Segment	Group holding, %
Arvika Fjärrvärme AB	Sweden	■	30.1
Blybergs Kraft AB	Sweden	●	66.7
Brännälven Kraft AB	Sweden	●	67.0
Bullerforsens Kraft AB	Sweden	●	88.0
Ekerö Energi AB	Sweden	▲	100.0
Ekerö Energi Försäljning AB	Sweden	○	100.0
Elbolaget OEP AB	Sweden	○	100.0
Fortum 1 AB	Sweden	□	100.0
Fortum AMCO AB	¹⁾ Sweden	■	100.0
Fortum Dalälvens Kraft AB	Sweden	●	100.0
Fortum Distribution AB	Sweden	▲	100.0
Fortum Fastigheter AB	Sweden	▼	100.0
Fortum Four AB	Sweden	●	100.0
Fortum Generation AB	Sweden	●	100.0
Fortum Indalskraft AB	Sweden	●	100.0
Fortum Ljunga Kraft AB	Sweden	●	100.0
Fortum Ljusnans Kraft AB	Sweden	●	100.0
Fortum Markets AB	Sweden	○	100.0
Fortum Nordic AB	³⁾ Sweden	▼	100.0
Fortum Portfolio Services AB	Sweden	○	100.0
Fortum Power and Heat AB	Sweden	■ ○ ▼	100.0
Fortum Produktionsnät AB	Sweden	●	100.0
Fortum Service AB	Sweden	●	100.0
Fortum Service Öst AB	Sweden	●	100.0
Fortum Sweden AB	³⁾ Sweden	▼	100.0
Fortum Värme Alpha AB	Sweden	■	50.1
Fortum Värme Fastigheter AB	Sweden	■	50.1
Fortum Värme Nynäshamn AB	Sweden	■	100.0
Fortum Zeta AB	Sweden	▼	100.0
Fortum Älvkraft i Värmland AB	Sweden	●	100.0
Frostviken Kraft AB	Sweden	●	100.0
Hofors Energi AB	Sweden	■	30.1
Hällefors Värme AB	Sweden	■	47.6
Mellansvensk Kraftgrupp AB	Sweden	●	86.9
NGI Naturgasinvest AB	Sweden	●	100.0
Oreälvens Kraft AB	Sweden	●	65.0
Parteboda Kraft AB	Sweden	●	100.0
Processio AB	Sweden	●	100.0
Ryssa Energi AB	Sweden	○	100.0
Sigtuna-Väsby Fastighets AB	Sweden	■	50.1

Corp. Name	Domicile	Segment	Group holding, %
Stockholm Gas AB	Sweden	■	50.1
Säffle 5:35 Fastighets AB	Sweden	■	50.1
Säffle Fjärrvärme AB	Sweden	■	25.6
Uddeholm Kraft AB	Sweden	▼	100.0
Voxnan Kraft AB	Sweden	●	100.0
Värmlandskraft OKG-delägarna AB	Sweden	●	73.3
FB Generation Services B.V.	The Netherlands	●	75.0
Fortum Alpha B.V.	The Netherlands	▼ ■	100.0
Fortum East China Energy Investments B.V.	The Netherlands	●	100.0
Fortum Finance 2 B.V.	The Netherlands	▼	100.0
Fortum Holding B.V.	³⁾ The Netherlands	● ■ ▼	100.0
Fortum Power Holding B.V.	The Netherlands	●	100.0
Fortum Russia B.V.	The Netherlands	□	100.0
Fortum Russia Holding B.V.	The Netherlands	▼	100.0

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Key figures

Financial key figures

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

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

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

	FAS	FAS	FAS	FAS	FAS	FAS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	Change 09/08
EUR million or as indicated	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	%
Sales total Fortum	8,494	8,232	10,614	10,410	11,148	11,392	11,659	5,918					
Sales continuing operations							3,835	3,877	4,491	4,479	5,636	5,435	–4
EBITDA total Fortum ¹⁾	1,049	1,192	1,431	1,501	1,952	1,917	2,443	2,307					
EBITDA continuing operations							1,583	1,754	1,884	2,298	2,478	2,292	–8
Operating profit total Fortum	586	705	906	914	1,289	1,420	1,916	1,864					
- of sales %	6.9	8.6	8.5	8.8	11.6	12.5	16.4	31.5					
Operating profit continuing operations							1,195	1,347	1,455	1,847	1,963	1,782	–9
- of sales %							31.2	34.7	32.4	41.2	34.8	32.8	
Comparable operating profit continuing operations							1,148	1,334	1,437	1,564	1,845	1,888	2
Profit before income tax total Fortum	363	954	623	702	1,008	1,184	1,700	1,776					
- of sales %	4.3	11.6	5.9	6.7	9.0	10.4	14.6	30.0					
Profit before income tax continuing operations							962	1,267	1,421	1,934	1,850	1,636	–12
- of sales %							25.1	32.7	31.6	43.2	32.8	30.1	
Profit for the period continuing operations							703	936	1,120	1,608	1,596	1,351	–15
- of which attributable to owners of the parent							670	884	1,071	1,552	1,542	1,312	–15
Capital employed, total Fortum	8,647	9,425	11,365	11,032	13,765	12,704	12,890						
Capital employed continuing operations							10,739	11,357	12,663	13,544	15,911	15,350	–4
Interest-bearing net debt	3,898	3,818	4,626	3,674	5,848	5,626	5,095	3,158	4,345	4,466	6,179	5,969	–3
Capital expenditure and gross investments in shares, total Fortum	1,702	1,059	3,131	713	4,381	1,136	830	578	1,395	972	2,624	929	–65
- of sales %	20.0	12.9	29.5	6.8	39.3	10.0	7.1	9.8	31.1	21.7	46.6	17.1	
Capital expenditure and gross investments in shares continuing operations							514	479	1,395	972	2,624	929	–65
Capital expenditure continuing operations							335	346	485	655	1,108	862	–22

	FAS	FAS	FAS	FAS	FAS	FAS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	Change 09/08
EUR million or as indicated	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	%
Net cash from operating activities, total Fortum	793	524	424	1,145	1,351	1,577	1,758	1,404					
Net cash from operating activities continuing operations							1,232	1,271	1,151	1,670	2,002	2,264	13
Return on capital employed, total Fortum, %	7.7	8.4	9.4	8.7	11.1	11.4	15.8	16.6					
Return on capital employed continuing operations, %							11.4	13.5	13.4	16.5	15.0	12.1	
Return on shareholders' equity, total Fortum, %	5.7	7.7	8.6	8.3	10.5	12.3	18.2	18.7					
Return on shareholders' equity continuing operations, % ²⁾								13.5	14.4	19.1	18.7	16.0	
Interest coverage	2.6	3.4	3.7	4.3	4.7	5.8	8.0	11.6	11.5	12.8	9.4	12.4	
Interest coverage including capitalised borrowing costs											8.6	10.3	
Funds from operations / interest-bearing net debt, %	17.9	14.3	19.9	28.8	21.6	26.1	36.4	43.2	30.6	36.3	34.1	37.6	
Gearing, % ³⁾	93	79	73	54	80	85	67	43	53	52	73	70	
Net debt / EBITDA	3.7	3.2	3.2	2.4	3.0	2.9	2.1	1.4					
Net debt / EBITDA continuing operations							-	1.8	2.3	1.9	2.5	2.6	
Equity-to-assets ratio, %	36	39	43	48	41	40	44	49	48	49	41	43	
Dividends ⁴⁾	99	141	194	220	262	357	506	987	1,122	1,198	888	888 ⁵⁾	0
Dividends continuing operations								511	650	683			
Dividends additional in 2006 and 2007 / discontinued operations in 2005								476	472	515			
Research and development expenditure	92	72	58	53	33	35	26	14	17	21	27	30	11
- of sales %	1.1	0.9	0.5	0.5	0.3	0.3	0.2	0.2	0.4	0.5	0.5	0.5	
Average number of employees total Fortum	19,003	17,461	16,220	14,803	14,053	13,343	12,859	10,026	8,910	8,304	14,077	13,278	
Average number of employees continuing operations							8,592	8,939	8,910	8,304	14,077	13,278	

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

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

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

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

5) Board of Directors' proposal for the Annual General Meeting on 25 March 2010.

⊕ See Definitions of key figures on page 179.

Share key figures

	FAS	FAS	FAS	FAS	FAS	FAS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	Change 09/08
EUR or as indicated	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	%
Earnings per share total Fortum	0.27	0.41	0.55	0.57	0.79	0.91	1.48	1.55	1.22	1.74	1.74	1.48	-15
Earnings per share continuing operations	-	-	-	-	-	-	0.79	1.01	1.22	1.74	1.74	1.48	-15
Earnings per share discontinued operations	-	-	-	-	-	-	0.69	0.54	-	-	-	-	
Diluted earnings per share total Fortum	-	-	0.55	0.57	0.78	0.90	1.46	1.53	1.21	1.74	1.74	1.48	-15
Diluted earnings per share continuing operations	-	-	-	-	-	-	0.78	1.00	1.21	1.74	1.74	1.48	-15
Diluted earnings per share discontinued operations	-	-	-	-	-	-	0.68	0.53	-	-	-	-	
Cash flow per share total Fortum	1.01	0.67	0.54	1.43	1.60	1.86	2.06	1.61	1.31	1.88	2.26	2.55	13
Cash flow per share continuing operations	-	-	-	-	-	-	1.44	1.46	1.31	1.88	2.26	2.55	13
Equity per share	5.06	6.00	6.32	6.49	6.97	7.55	8.65	8.17	8.91	9.43	8.96	9.04	1
Dividend per share total Fortum ¹⁾	0.13	0.18	0.23	0.26	0.31	0.42	0.58	1.12	1.26	1.35	1.00	1.00 ²⁾	0
Dividend per share continuing operations	-	-	-	-	-	-	-	0.58	0.73	0.77	-	-	
Dividend per share additional in 2006 and 2007 / discontinued operations in 2005	-	-	-	-	-	-	-	0.54	0.53	0.58	-	-	
Payout ratio total Fortum, %	46.3	43.4	41.9	45.6	39.2	46.2	39.2	72.3	103.3 ⁴⁾	77.6 ⁴⁾	57.5	67.6 ²⁾	
Payout ratio continuing operations, %	-	-	-	-	-	-	-	57.4 ³⁾	59.8 ⁴⁾	44.3 ⁴⁾	-	-	
Payout ratio additional dividend in 2006 and 2007 / discontinued operations in 2005, %	-	-	-	-	-	-	-	100.0 ³⁾	43.4 ⁴⁾	33.3 ⁴⁾	-	-	
Dividend yield, %	2.5	4.0	5.3	5.5	5.0	5.1	4.3	7.1	5.8	4.4	6.6	5.3 ²⁾	
Price/earnings ratio (P/E)	18.5	10.9	7.9	8.3	7.9	9.0	9.2	10.2	17.7	17.7	8.8	12.8	
Share prices													
At the end of the period	5.03	4.50	4.35	4.75	6.25	8.18	13.62	15.84	21.56	30.81	15.23	18.97	
Average share price	5.66	4.76	4.18	4.79	5.87	6.94	10.29	13.87	20.39	23.57	24.79	15.91	
Lowest share price	4.86	4.24	3.50	4.05	4.75	5.66	7.45	10.45	15.71	20.01	12.77	12.60	
Highest share price	6.05	5.80	4.94	5.70	6.52	8.75	13.99	16.90	23.48	31.44	33.00	19.20	
Market capitalisation at the end of the period, EUR million	3,949	3,532	3,456	4,017	5,286	6,943	11,810	13,865	19,132	27,319	13,519	16,852	
Trading volumes													
Number of shares, 1,000 shares	17,643	112,398	93,900	134,499	251,216	270,278	478,832	900,347	830,764	787,380	628,155	580,899	
In relation to the weighted average number of shares, %	2.2	14.3	11.9	16.8	29.7	31.9	59.2	103.2	94.3	88.5	70.8	65.4	
Number of shares, 1,000 shares	784,783	784,783	845,609	845,609	845,776	849,813	867,084	875,294	887,394	886,683	887,638	888,367	
Number of shares excluding own shares, 1,000 shares	NA	NA	794,571	NA	NA	NA	NA	NA	NA	NA	NA	NA	
Average number of shares, 1,000 shares	784,783	784,783	787,223	798,346	845,642	846,831	852,625	872,613	881,194	889,997	887,256	888,230	
Diluted adjusted average number of shares, 1,000 shares	-	-	787,223	798,308	851,482	858,732	861,772	887,653	886,929	891,395	887,839	888,230	

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

2) Board of Directors' proposal for the Annual General Meeting on 25 March 2010.

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

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

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

➤ See Definitions of key figures on page 179.

Operational key figures, volumes

		2004	2005	2006	2007	2008	2009
Fortum's total power and heat generation in EU and Norway							
Power generation	TWh	55.5	52.3	54.4	52.2	52.6	49.3
Heat generation	TWh	25.4	25.1	25.8	26.1	25.0	23.2
Fortum's total power and heat generation in Russia							
Power generation	TWh	-	-	-	-	11.6	16.0
Heat generation	TWh	-	-	-	-	15.3	25.6
Fortum's own power generation by source, total in the Nordic countries							
Hydropower	TWh	19.1	21.2	19.8	20.0	22.9	22.1
Nuclear power	TWh	25.8	25.8	24.4	24.9	23.7	21.4
Thermal power	TWh	9.5	4.2	9.0	6.2	5.0	4.6
Total	TWh	54.4	51.2	53.2	51.1	51.6	48.1
Fortum's own power generation by source, total in the Nordic countries							
Hydropower	%	35	42	37	39	44	46
Nuclear power	%	47	50	46	49	46	44
Thermal power	%	18	8	17	12	10	10
Total	%	100	100	100	100	100	100
Fortum's total electricity and heat sales in EU and Norway							
Electricity sales	EUR million	2,017	2,002	2,437	2,370	2,959	2,802
Heat sales	EUR million	809	867	1,014	1,096	1,157	1,095
Fortum's total electricity and heat sales in Russia							
Electricity sales	EUR million	-	-	-	-	332	390
Heat sales	EUR million	-	-	-	-	141	219
Fortum's total electricity sales by area							
Finland	TWh	31.1	26.0	29.6	29.0	28.7	26.1
Sweden	TWh	27.6	30.4	28.5	27.6	28.5	26.9
Russia	TWh	-	-	-	-	14.8	19.5
Other countries	TWh	3.6	3.3	3.5	3.1	3.0	3.2
Total	TWh	62.3	59.7	61.6	59.7	75.0	75.7
Fortum's total heat sales by area							
Finland	TWh	10.5	9.8	10.7	11.1	10.8	8.0
Russia	TWh	-	-	-	-	15.3	25.6
Sweden	TWh	9.6	9.5	9.3	9.2	9.1	9.8
Poland	TWh	0.4	1.1	3.6	3.5	3.6	3.7
Other countries	TWh	3.3	3.4	3.2	3.3	3.4	3.5
Total	TWh	23.8	23.8	26.8	27.1	42.2	50.6
Volume of distributed electricity in distribution networks							
Finland	TWh	6.2	6.3	7.7	9.2	9.3	9.4
Sweden	TWh	14.2	14.4	14.4	14.3	14.0	14.0
Norway	TWh	2.1	2.2	2.3	2.3	2.3	2.3
Estonia	TWh	0.2	0.2	0.2	0.2	0.2	0.2
Total	TWh	22.7	23.1	24.6	26.0	25.8	25.9

Operational key figures, segments

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

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

⊕ For further information see Note 5 Segment reporting on page 134.

Sales by segment

EUR million	2004	2005	2006	2007	2008	2009
Power	2,084	2,058	2,439	2,350	2,892	2,596
- of which internal	128	-97	-133	323	0	231
Heat	1,025	1,063	1,268	1,356	1,466	1,394
- of which internal	49	-12	-32	38	0	22
Distribution	707	707	753	769	789	800
- of which internal	10	-8	8	9	10	13
Markets	1,387	1,365	1,912	1,683	1,922	1,449
- of which internal	92	-101	149	155	177	68
Russia	-	-	-	-	489	623
- of which internal	-	-	-	-	-	-
Other	90	91	78	81	83	74
- of which internal	93	-63	62	72	82	72
Eliminations	-1,458	-1,407	-1,959	-1,760	-2,005	-1,501
Total	3,835	3,877	4,491	4,479	5,636	5,435

Comparable operating profit by segment

EUR million	2004	2005	2006	2007	2008	2009
Power	730	854	985	1,095	1,528	1,469
Heat	207	253	253	290	250	227
Distribution	240	244	250	231	248	262
Markets	23	30	-4	-1	-33	22
Russia	-	-	-	-	-92	-26
Other	-52	-47	-47	-51	-56	-66
Comparable operating profit	1,148	1,334	1,437	1,564	1,845	1,888
Non-recurring items	18	30	61	250	85	29
Other items effecting comparability	29	-17	-43	33	33	-135
Operating profit	1,195	1,347	1,455	1,847	1,963	1,782

Depreciation, amortisation and impairment charges by segment

EUR million	2004	2005	2006	2007	2008	2009
Power	104	112	108	103	97	93
Heat	124	123	144	163	169	162
Distribution	133	145	147	162	165	164
Markets	16	15	19	11	7	6
Russia	-	-	-	-	67	75
Other	11	12	11	12	10	10
Total	388	407	429	451	515	510

Share of profit of associates and joint ventures by segment

EUR million	2004	2005	2006	2007	2008	2009
Power	-21	-21	-9	-23	26	-35
Heat	15	11	23	24	12	30
Distribution	16	20	15	18	16	10
Markets	0	1	1	0	5	0
Russia	-	-	-	-	19	20
Other	2	44	39	222	48	-4
Total	12	55	69	241	126	21

Capital expenditure by segment

EUR million	2004	2005	2006	2007	2008	2009
Power	84	83	95	93	134	97
Heat	123	124	184	309	408	358
Distribution	106	115	183	236	296	188
Markets	10	10	8	3	3	1
Russia	-	-	-	-	256	215
Other	12	14	15	14	11	3
Total	335	346	485	655	1,108	862

Gross investments in shares by segment

EUR million	2004	2005	2006	2007	2008	2009
Power	23	45	5	52	0	57
Heat	53	87	589	18	23	1
Distribution	0	-	130	1	0	5
Markets	0	-	6	0	0	-
Russia	103	2	140	245	1,492	3
Other	0	-	40	1	1	1
Total	179	134	910	317	1,516	67

Net assets by segment

EUR million	2004	2005	2006	2007	2008	2009
Power	5,804	5,493	5,690	5,599	5,331	5,512
Heat	2,440	2,551	3,407	3,507	3,468	3,786
Distribution	3,091	3,021	3,412	3,239	3,032	3,299
Markets	194	228	176	247	188	147
Russia	151	153	294	456	2,205	2,248
Other	220	447	835	1,237	796	355
Total	11,900	11,893	13,814	14,285	15,020	15,347

Return on net assets by segment

%	2004	2005	2006	2007	2008	2009
Power	12.6	14.3	17.5	19.2	29.6	23.9
Heat	9.8	11.6	9.6	9.3	8.9	7.8
Distribution	8.1	8.8	8.4	7.7	8.1	8.7
Markets	25.2	17.4	-1.6	6.9	-14.0	16.8
Russia	-	-	-	66.3	-3.7	-0.3

Comparable return on net assets by segment

%	2004	2005	2006	2007	2008	2009
Power	12.0	14.9	17.4	18.9	28.0	26.6
Heat	9.3	11.0	9.2	9.2	7.3	7.2
Distribution	8.3	8.6	8.3	7.6	8.2	8.6
Markets	17.1	16.4	-0.8	-0.6	-15.3	18.6
Russia	-	-	-	0.0	-3.8	-0.3

Average number of personnel

	2004	2005	2006	2007	2008	2009
Power	4,588	4,374	4,147	3,475	3,591	3,373
Heat	1,605	2,186	2,345	2,302	2,422	2,208
Distribution	995	1,008	983	1,060	1,222	1,166
Markets	682	745	825	936	766	629
Russia	-	-	-	-	5,566	5,380
Other	722	626	610	531	510	522
Total	8,592	8,939	8,910	8,304	14,077	13,278

Definitions of key figures

EBITDA (Earnings before interest, taxes, depreciation and amortisation) = Operating profit + Depreciation, amortisation and impairment charges

Comparable operating profit = Operating profit – non-recurring items – other items effecting comparability

Non-recurring items = Mainly capital gains and losses

Other items effecting comparability = Includes effects from financial derivatives hedging future cash flows where hedge accounting is not applied according to IAS 39 and effects from the accounting of Fortum's part of the Finnish Nuclear Waste Fund where the asset in the balance sheet cannot exceed the related liabilities according to IFRIC interpretation 5.

Funds from operations (FFO) = Net cash from operating activities before change in working capital

Capital expenditure = Capitalised investments in property, plant and equipment and intangible assets including maintenance, productivity, growth and investments required by legislation including borrowing costs capitalised during the construction period. Maintenance investments expand the lifetime of an existing asset, maintain usage/availability and/or maintains reliability. Productivity improves productivity in an existing asset. Growth investments' purpose is to build new assets and/or to increase customer base within existing businesses. Legislation investments are done at certain point of time due to legal requirements.

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

Return on shareholders' equity, % = $\frac{\text{Profit for the year}}{\text{Total equity average}} \times 100$

Return on capital employed, % = $\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Capital employed average}} \times 100$

Return on capital employed continuing operations, % = $\frac{\text{Profit before taxes continuing operations + interest and other financial expenses continuing operations}}{\text{Capital employed continuing operations average}} \times 100$

Return on net assets, %	$= \frac{\text{Operating profit + Share of profit (loss) in associated companies and joint ventures}}{\text{Net assets average}} \times 100$	Average number of employees	= Based on monthly average for the whole period
Comparable return on net assets, %	$= \frac{\text{Comparable operating profit + Share of profit (loss) in associated companies and joint ventures (adjusted for IAS 39 effects and major sales gains or losses)}}{\text{Comparable net assets average}} \times 100$	Earnings per share (EPS)	$= \frac{\text{Profit for the period – non-controlling interests}}{\text{Average number of shares during the period}}$
Capital employed	= Total assets – non-interest bearing liabilities – deferred tax liabilities – provisions	Cash flow per share	$= \frac{\text{Net cash from operating activities}}{\text{Average number of shares during the period}}$
Net assets	= Non-interest bearing assets + interest-bearing assets related to the Nuclear Waste Fund – non-interest bearing liabilities – provisions (non-interest bearing assets and liabilities do not include finance related items, tax and deferred tax and assets and liabilities from fair valuations of derivatives where hedge accounting is applied)	Equity per share	$= \frac{\text{Shareholders' equity}}{\text{Number of shares at the end of the period}}$
Comparable net assets	= Net assets adjusted for non-interest-bearing assets and liabilities arising from financial derivatives hedging future cash flows where hedge accounting is not applied according to IAS 39	Payout ratio, %	$= \frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$
Interest-bearing net debt	= Interest-bearing liabilities – liquid funds	Payout ratio continuing operations, %	$= \frac{\text{Dividend per share continuing operations}}{\text{Earnings per share continuing operations}} \times 100$
Gearing, %	$= \frac{\text{Interest-bearing net debt}}{\text{Total equity}} \times 100$	Dividend yield, %	$= \frac{\text{Dividend per share}}{\text{Share price at the end of the period}} \times 100$
Equity-to-assets ratio, %	$= \frac{\text{Total equity including non-controlling interests}}{\text{Total assets}} \times 100$	Price/earnings (P/E) ratio	$= \frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$
Net debt / EBITDA	$= \frac{\text{Interest-bearing net debt}}{\text{Operating profit + Depreciation, amortisation and impairment charges}}$	Average share price	$= \frac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$
Net debt / EBITDA continuing operations	$= \frac{\text{Interest-bearing net debt}}{\text{Operating profit continuing operations + Depreciation, amortisation and impairment charges continuing operations}}$	Market capitalisation	= Number of shares at the end of the period x share price at the end of the period
Interest coverage	$= \frac{\text{Operating profit}}{\text{Net interest expenses}}$	Trading volumes	= Number of shares traded during the period in relation to the weighted average number of shares during the period
Interest coverage including capitalised borrowing costs	$= \frac{\text{Operating profit}}{\text{Net interest expenses-capitalised borrowing costs}}$		

Parent company financial statements, Finnish GAAP (FAS)

Income statement

EUR million	Note	2009	2008
Sales	2	61	68
Other income	3	8	7
Employee costs	4	-41	-48
Depreciation, amortisation and write-downs		-10	-10
Other expenses		-58	-60
Operating profit		-40	-43
Financial income and expenses	5	580	1,215
Profit after financial items		540	1,172
Group contributions ¹⁾		792	757
Profit before income tax		1,332	1,929
Income tax expense	6	-134	-108
Profit for the period		1,198	1,821

1) Taxable profits transferred from Finnish subsidiaries.

Balance sheet

EUR million	Note	2009	2008
ASSETS			
Non-current assets	7		
Intangible assets		14	15
Property, plant and equipment		11	15
Investments in group companies		15,965	16,285
Interest-bearing receivables from group companies		698	970
Investments in associated companies		0	0
Interest-bearing receivables from associated companies		1	2
Other non-current assets		4	6
Deferred tax assets		3	3
Total non-current assets		16,696	17,296
Current assets			
Trade and other receivables from group companies	8	819	798
Trade and other receivables from associated companies	8	0	0
Trade and other receivables	8	125	686
Cash and cash equivalents	9	214	249
Total current assets		1,158	1,733
Total assets		17,854	19,029

EUR million	Note	2009	2008
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	10		
Share capital		3,046	3,044
Share issue		-	0
Share premium		2,822	2,822
Retained earnings		2,854	1,921
Profit for the period		1,198	1,821
Total shareholders' equity		9,920	9,608

Provisions for liabilities and charges	0	-
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LIABILITIES

Non-current liabilities			
External interest-bearing liabilities	11	5,266	6,016
Interest-bearing liabilities to group companies	11	1,438	1,767
Interest-bearing liabilities to associated companies	11	199	184
Other non-current liabilities		12	13
Deferred tax liabilities		33	67
Total non-current liabilities		6,948	8,047
Current liabilities			
External interest-bearing liabilities	11	780	687
Trade and other payables to group companies	12	43	570
Trade and other payables to associated companies	12	5	8
Trade and other payables	12	158	109
Total current liabilities		986	1,374
Total liabilities		7,934	9,421
Total equity and liabilities		17,854	19,029

Cash flow statement

EUR million	2009	2008
Cash flow from operating activities		
Profit for the period	1,198	1,821
Adjustments:		
Income tax expense	134	108
Group contributions	-792	-757
Finance costs - net	-580	-1,215
Depreciations, amortisation and write-downs	10	10
Operating profit before depreciations	-30	-33
Non-cash flow items and divesting activities	0	-1
Interest and other financial income	23	152
Interest and other financial expenses paid, net	-282	-442
Dividend income	1,147	1,596
Group contribution received	757	724
Realised foreign exchange gains and losses	612	-695
Income taxes paid	-66	-147
Funds from operations	2,161	1,154
Decrease/increase in trade and other short-term receivables	13	5
Increase in trade and other short-term payables	-11	0
Change in working capital	2	5
Net cash from operating activities	2,163	1,159
Cash flow from investing activities		
Capital expenditures	-4	-13
Acquisition of shares and capital contributions in subsidiaries	-	-4,110
Acquisition of other shares	-1	0
Proceeds from sales of fixed assets	0	1
Proceeds from sales of shares in associates	0	-
Change in interest-bearing receivables and other non-current assets	274	1,005
Net cash used in investing activities	269	-3,117
Cash flow before financing activities	2,432	-1,958
Cash flow from financing activities		
Proceeds from long-term liabilities	1,606	5,382
Payment of long-term liabilities	-2,497	-3,346
Change in short-term liabilities	-692	993
Proceeds from stock options exercised	3	4
Dividends paid	-888	-1,198
Net cash used in financing activities	-2,468	1,835
Net increase (+) / decrease (-) in cash and cash equivalents	-36	-123
Cash and cash equivalents at the beginning of the period	250	373
Cash and cash equivalents at the end of the period	214	250
Net increase (+) / decrease (-) in cash and cash equivalents	-36	-123

Parent Company notes to the financial statements

1 Accounting policies and principles

The financial statements of Fortum Oyj are prepared in accordance with Finnish Accounting Standards (FAS).

1.1 Sales

Sales include sales revenue from actual operations and exchange rate differences on trade receivables, less discounts and indirect taxes such as value added tax.

1.2 Other income

Other income includes gains on the sales of tangible assets and shareholdings, as well as all other operating income not related to the sales of products or services, such as rents.

1.3 Foreign currency items and derivative instruments

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the balance sheet date have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the financial net in the income statement.

Fortum Oyj enters into derivative contracts mainly for hedging foreign exchange and interest rate exposures.

Derivatives used to hedge balance sheet items e.g. bank accounts, loans or receivables are valued employing the exchange rate quoted on the balance sheet date, and gains or losses are recognised in the income statement. The interest element on forward contracts is accrued for the period.

Option premiums are treated as advances paid or received until the option matures, and any losses on options entered into other than for hedging purposes are entered as an expense in the income statement.

Interest income or expense for derivatives used to hedge the interest rate risk exposure is accrued over the period to maturity and is recognised as an adjustment to the interest expense of the liabilities.

1.4 Income taxes

Income taxes presented in the income statement consist of accrued taxes for the financial year and tax adjustments for prior years.

1.5 Property, plant and equipment and depreciation

The balance sheet value of property, plant and equipment consists of historical costs less depreciation and other deductions. Property, plant and equipment are depreciated using straight-line depreciation based on the expected useful life of the asset.

The depreciation is based on the following expected useful lives:

Buildings and structures	15–40 years
Machinery and equipment	3–15 years
Other intangible assets	5–10 years

1.6 Pension expenses

Statutory pension obligations are covered through a compulsory pension insurance policy or Group's own pension fund. Payments to Group's pension fund are recorded in the income statement in amounts determined by the pension fund according to the actuarial assumptions pursuant to the Finnish Employees' Pension Act.

1.7 Equity-related compensation benefits

Costs related to the Fortum long-term incentive plans are accrued over the plan period and the related liability is booked to the balance sheet.

1.8 Provisions

Foreseeable future expenses and losses that have no corresponding revenue to which Fortum is committed or obliged to settle, and whose monetary value can be reasonably assessed, are entered as expenses in the income statement and included as provisions in the balance sheet.

2 Sales by market area

EUR million	2009	2008
Finland	57	63
Other countries	4	5
Total	61	68

3 Other income

EUR million	2009	2008
Gain on sales of shareholdings	0	-
Rental and other income	8	7
Total	8	7

4 Employee costs

EUR million	2009	2008
Personnel expenses		
Wages, salaries and remunerations	32	30
Indirect employee costs		
Pension costs	5	11
Other indirect employee costs	2	2
Other personnel expenses	2	5
Total	41	48

Salaries and remunerations		
President and CEO ¹⁾	2	3
Board of Directors	0	1
Supervisory Board	0	0
Total	2	4

1) The President and CEO of the company changed May 1, 2009. The salaries and remuneration to the President and CEO is presented for the former CEO January 1–April 30 and the new CEO May 1–December 31.

For the President and CEO the retirement age is 63. The pension obligations are covered either through insurance companies or through the Fortum Pension Fund.

➔ See also Note 35 Pension obligations on page 165 in the Consolidated financial statements.

	2009	2008
Average number of employees	422	504

5 Financial income and expenses

EUR million	2009	2008
Dividend income from group companies	1,147	1,596
Interest and other financial income from group companies	60	125
Write-downs of participations in group companies	-320	-80
Interest and other financial income	4	12
Exchange rate differences	-7	-7
Interest and other financial expenses to group companies	-28	-112
Interest and other financial expenses	-276	-319
Total	580	1,215

Total interest income and expenses		
Interest income	63	136
Interest expenses	-299	-427
Interest net	-236	-291

Write-downs of participations in group companies is related to shares in Fortum Heat and Gas Oy. Write-downs is a consequence of received dividends.

6 Income tax expense

EUR million	2009	2008
Taxes on regular business operations	-72	-89
Taxes on group contributions	206	197
Total	134	108
Current taxes for the period	166	45
Current taxes for prior periods	2	0
Changes in deferred tax	-34	63
Total	134	108

7 Non-current assets

Intangible assets

EUR million	Intangible assets total
Cost 1 January 2009	36
Additions	3
Disposals	-5
Cost 31 December 2009	34
Accumulated depreciation 1 January 2009	21
Disposals	-5
Depreciation for the period	4
Accumulated depreciation 31 December 2009	20
Carrying amount 31 December 2009	14
Carrying amount 31 December 2008	15

Property, plant and equipment

EUR million	Buildings and structures	Machinery and equipment	Advances paid and construction in progress	Total
Cost 1 January 2009	1	31	5	37
Additions	-	2	-	2
Disposals	-	-7	-1	-8
Cost 31 December 2009	1	26	4	31
Accumulated depreciation 1 January 2009	0	22	-	22
Disposals	-	-7	-	-7
Depreciation for the period	0	5	-	5
Accumulated depreciation 31 December 2009	0	20	-	20
Carrying amount 31 December 2009	1	6	4	11
Carrying amount 31 December 2008	1	9	5	15

Investments

EUR million	Shares in Group companies	Receivables from Group companies	Shares in associated companies	Receivables from associated companies	Other non-current assets	Total
1 January 2009	16,365	970	0	2	6	17,343
Additions ¹⁾	-	149	-	0	1	150
Disposals	-	-421	0	-1	-3	-425
31 December 2009	16,365	698	0	1	4	17,068
Accumulated depreciation 1 January 2009	-80	-	-	-	-	-80
Impairment charges	-320	-	-	-	-	-320
Accumulated depreciation 31 December 2009 ²⁾	-400	-	-	-	-	-400
Carrying amount 31 December 2009	15,965	698	0	1	4	16,668

1) Additions regarding shares comprise acquisitions of shares and capital contributions.

2) Write-downs of participations in group companies is related to shares in Fortum Heat and Gas Oy. Write-downs is a consequence of received dividends.

8 Trade and other receivables

EUR million	2009	2008
Trade and other receivables from group companies		
Trade receivables	17	28
Other receivables	792	757
Accrued income and prepaid expenses	10	13
Total	819	798
Trade and other receivables from associated companies		
Trade receivables	0	0
Trade and other receivables		
Trade receivables	0	0
Other receivables	1	1
Accrued income and prepaid expenses	124	685
Total	125	686

9 Cash and cash equivalents

EUR million	2009	2008
Cash at bank and in hand	104	19
Bank deposits	110	230
Cash and cash equivalents	214	249

10 Changes in shareholders' equity

EUR million	Share capital	Share issue	Share premium	Retained earnings	Total
Total equity 31 December 2008	3,044	0	2,822	3,742	9,608
Stock options exercised	2	0	-	-	2
Cash dividend	-	-	-	-888	-888
Profit for the period	-	-	-	1,198	1,198
Total equity 31 December 2009	3,046	0	2,822	4,052	9,920
Total equity 31 December 2007	3,040	0	2,822	3,119	8,981
Stock options exercised	4	-	-	-	4
Cash dividend	-	-	-	-1,198	-1,198
Profit for the period	-	-	-	1,821	1,821
Total equity 31 December 2008	3,044	0	2,822	3,742	9,608
EUR million			2009	2008	
Distributable funds 31 December			4,052	3,742	

11 Interest-bearing liabilities

External interest-bearing liabilities

EUR million	2009	2008
Bonds	3,642	2,488
Loans from financial institutions	866	2,837
Other long-term interest-bearing debt	758	691
Total long-term interest-bearing debt	5,266	6,016
Current portion of long-term bonds	500	230
Current portion of loans from financial institutions	0	0
Commercial papers	250	457
Other short-term interest-bearing debt	30	0
Total short-term interest-bearing debt	780	687
Total external interest-bearing debt	6,046	6,703

Maturity of external interest-bearing liabilities

EUR million	2009
2010	780
2011	576
2012	441
2013	522
2014	1,105
2015 and later	2,622
Total	6,046

External interest-bearing liabilities due after five years

EUR million	2009	2008
Bonds	1,550	985
Loans from financial institutions	321	120
Other long-term liabilities	751	691
Total	2,622	1,796

Other interest-bearing liabilities due after five years

EUR million	2009	2008
Interest-bearing liabilities to group companies	17	17
Interest-bearing liabilities to associated companies	199	184
Total	216	201

12 Trade and other payables

EUR million	2009	2008
Trade and other payables to group companies		
Trade payables	1	8
Other liabilities	42	559
Accruals and deferred income	0	3
Total	43	570
Trade and other payables to associated companies		
Trade payables	0	-
Accruals and deferred income	5	8
Total	5	8
Trade and other payables		
Trade payables	7	10
Other liabilities	2	2
Other short-term accruals and deferred income	149	97
Total	158	109

13 Contingent liabilities

EUR million	2009	2008
On own behalf		
Other contingent liabilities	5	6
On behalf of group companies		
Guarantees	648	463
On behalf of associated companies		
Guarantees	518	489
On behalf of others		
Guarantees	1	4
Contingent liabilities total	1,172	962

Operating leases

EUR million	2009	2008
Lease payments		
Not later than 1 year	1	1
Later than 1 year and not later than 5 years	0	0
Total	1	1

Derivatives

EUR million	2009			2008		
	Contract or notional value	Fair value	Not recognised as an income	Contract or notional value	Fair value	Not recognised as an income
Forward rate agreements	-	-	-	230	0	0
Interest rate swaps	3,985	41	-5	2,977	-12	-13
Forward foreign exchange contracts ¹⁾	15,307	1	-3	12,846	366	-4
Interest rate and currency swaps	1,372	68	4	2,145	217	6

1) Includes also future positions.

14 Related party transactions

⊕ See Note 43 Related party transactions on page 170 in the Consolidated financial statements.

Proposal for the distribution of earnings

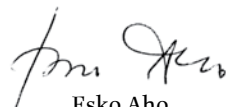
Parent company's distributable equity as of 31 December 2009 amounted to EUR 4,052,460,031.65. After the end of the financial period there have been no material changes in the financial position of the Company.

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a cash dividend of EUR 1.00 per share for 2009, totalling EUR 888 million based on the number of registered shares as of 2 February 2010.

Espoo, 2 February 2010



Matti Lehti



Esko Aho



Birgitta Johansson-Hedberg



Sari Baldauf



Ilona Ervasti-Vaintola



Christian Ramm-Schmidt



Tapio Kuula
President and CEO

Auditor's report

To the Annual General Meeting of Fortum Oyj

We have audited the accounting records, the financial statements, the Operating and Financial Review, and the administration of Fortum Oyj for the financial period 1.1.–31.12.2009. The financial statements comprise of the consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

The responsibility of the Supervisory Board, Board of Directors and the President and CEO

The responsibility of the Supervisory Board is to supervise the company's administration by the Board of Directors and the President and CEO. The Board of Directors and the President and CEO are responsible for the preparation of the financial statements and the Operating and Financial Review and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the Operating and Financial Review in accordance with laws and regulations governing the preparation of the financial statements and the Operating and Financial Review in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the Operating and Financial Review based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the Operating and Financial Review are free from material misstatement and whether the members of the parent company's Supervisory Board and Board of Directors and the President and CEO have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the Operating and Financial Review. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the Operating and Financial Review.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the Operating and Financial Review

In our opinion, the financial statements, together with the consolidated financial statements included therein, and the Operating and Financial Review give a true and fair view of the financial performance and financial position of the company in accordance with the laws and regulations governing the preparation of the financial statements and the Operating and Financial Review in Finland. The information in the Operating and Financial Review is consistent with the information in the financial statements.

Other opinions

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Supervisory Board and the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Limited Liability Companies Act.

Espoo, February 2, 2010

Deloitte & Touche Oy
Authorized Public Audit Firm



Mikael Paul
Authorized Public Auditor

Statement by the Supervisory Board

The Supervisory Board has today in its meeting reviewed Fortum Corporation's income statement, balance sheet and notes to the financial statements for the year 2009 as well as consolidated financial statements, operating and financial review and auditors' report provided by the Company's auditors. The Supervisory Board has no comments

to make on these. The Supervisory Board recommends that the income statement, balance sheet and consolidated financial statements can be approved.

The Supervisory Board states that it has received adequate information from the Board of Directors and the company's management.

Espoo, 10 February 2010



Markku Laukkanen



Martti Alakoski



Tarja Filatov



Sampsa Kataja



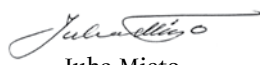
Kimmo Kiljunen



Katri Komi



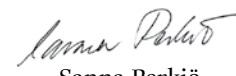
Panu Laturi



Juha Mieto



Jukka Mäkelä



Sanna Perkiö



Helena Pesola

Quarterly financial information

Selected data based on quarterly consolidated income statement

EUR million	Q1/2008	Q2/2008	Q3/2008	Q4/2008	2008	Q1/2009	Q2/2009	Q3/2009	Q4/2009	2009
Sales	1,440	1,322	1,272	1,602	5,636	1,632	1,194	1,046	1,563	5,435
EBITDA	720	483	532	743	2,478	721	499	414	658	2,292
Operating profit	609	348	395	611	1,963	599	375	286	522	1,782
Share of profit/loss of associates and joint ventures	34	36	8	48	126	-33	29	3	22	21
Finance costs - net	-45	-74	-66	-54	-239	-32	-49	-47	-39	-167
Profit before income tax	598	310	337	605	1,850	534	355	242	505	1,636
Income tax expense	-122	-65	-69	2	-254	-111	-61	-39	-74	-285
Profit for the period	476	245	268	607	1,596	423	294	203	431	1,351
Profit for the period, non-controlling interests	-24	-2	16	-44	-54	-17	-5	8	-25	-39
Profit for the period, owners of the parent	452	243	284	563	1,542	406	289	211	406	1,312
Earnings per share, basic, EUR	0.51	0.27	0.32	0.64	1.74	0.46	0.32	0.24	0.46	1.48
Earnings per share, diluted, EUR	0.51	0.27	0.32	0.64	1.74	0.46	0.32	0.24	0.46	1.48

Quarterly sales by segments

EUR million	Q1/2008	Q2/2008	Q3/2008	Q4/2008	2008	Q1/2009	Q2/2009	Q3/2009	Q4/2009	2009
Power	717	721	718	736	2,892	705	625	587	679	2,596
Heat	493	284	226	463	1,466	513	248	176	457	1,394
Distribution	232	180	171	206	789	229	176	168	227	800
Markets	519	411	461	531	1,922	469	298	272	410	1,449
Russia	-	152	140	197	489	184	136	109	194	623
Other	20	21	21	21	83	18	19	18	19	74
Netting of Nord Pool transactions ¹⁾	-426	-369	-465	-476	-1,736	-358	-212	-200	-325	-1,095
Eliminations	-115	-78	0	-76	-269	-128	-96	-84	-98	-406
Total	1,440	1,322	1,272	1,602	5,636	1,632	1,194	1,046	1,563	5,435

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

Quarterly comparable operating profit by segments

EUR million	Q1/2008	Q2/2008	Q3/2008	Q4/2008	2008	Q1/2009	Q2/2009	Q3/2009	Q4/2009	2009
Power	395	384	371	378	1,528	419	346	310	394	1,469
Heat	121	27	-7	109	250	112	26	-14	103	227
Distribution	87	49	49	63	248	81	54	47	80	262
Markets	-10	-15	-8	0	-33	-2	6	7	11	22
Russia	-	-33	-39	-20	-92	5	-16	-22	7	-26
Other	-12	-9	-13	-22	-56	-13	-16	-12	-25	-66
Comparable operating profit	581	403	353	508	1,845	602	400	316	570	1,888
Non-recurring items	2	0	15	68	85	4	10	7	8	29
Other items effecting comparability	26	-55	27	35	33	-7	-35	-37	-56	-135
Operating profit	609	348	395	611	1,963	599	375	286	522	1,782

The first and last quarters of the year are usually the strongest quarters for power and heat businesses.

⊕ Quarterly information is available on Fortum's website [www.fortum.com/investors/financial information](http://www.fortum.com/investors/financial_information).

Financial information in 2010

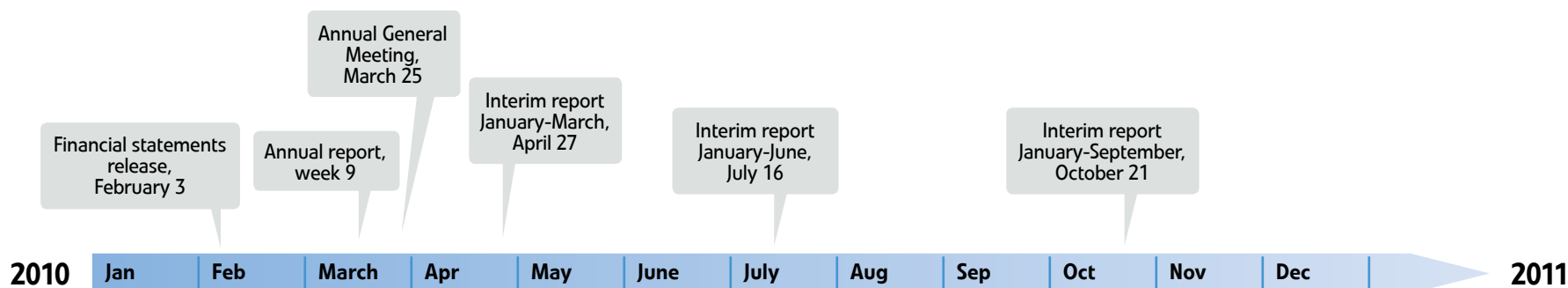
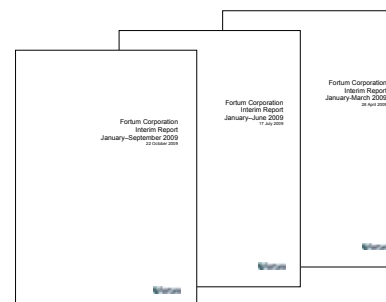
Fortum publishes three interim reports in 2010:

- Q1 on 27 April 2010
- Q2 on 16 July 2010
- Q3 on 21 October 2010

The reports are published at approximately 9:00 EET in Finnish and English, and are available on Fortum's website at www.fortum.com.

Fortum's management hosts regular press conferences for analysts and the media. A webcast of these conferences is available online at www.fortum.com. Management also gives interviews on a one-on-one and group basis. Fortum observes a silent period of 30 days prior to publishing its results.

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Investor information online

Fortum was ranked number four in the Hallvarsson & Halvarsson (H&H) Webranking Europe, which included 800 European companies. Fortum took the top position in H&H Webranking 2009 in Finland.



Investor information



Annual reports and interim reports including webcasts.

Calendar with coming events

Glossary with energy units, some industry-specific and financial terminology.

Investor information

Annual General Meeting

The Annual General Meeting of Fortum Corporation will be held on Thursday, 25 March 2010 at 1:00 p.m. EET at the Finlandia Hall, address: Mannerheimintie 13 e, 00100 Helsinki. The reception of shareholders who have registered for the meeting will commence at 12:00 a.m. EET.

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that Fortum Corporation pay a cash dividend of EUR 1.00 per share for 2009, totalling EUR 888 million based on the number of registered shares as of 2 February 2010.

Fortum share basics

Listed on NASDAQ OMX Helsinki
Trading ticker: FUM1V
Number of shares, 2 February 2010:
888,367,045
Sector: Utilities

Investor relations at Fortum

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Ordering financial information

Financial documents can be obtained from Fortum Corporation, Mail Room, POB 1, FI-00048, FORTUM, Finland,
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Investor information is available online at www.fortum.com/investors

Annual Report 2009

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This is a story of progress
and systematic work to
reach our long-term goals.
Confident in our competence,
we always strive to deliver
better results.

Read how our story evolves
in 2010 and beyond.