

Fortum's Annual Report 2014

Fortum is an energy company highly committed to sustainability. We strive to respond to the needs of our customers by generating, selling and distributing low-carbon electricity and heat and by offering energy-sector expert services.

Economic performance

EC1 Direct economic value generated and distributed

We analyse the economic impacts of our operations and the produced well-being on the different stakeholders in our operating

countries and market areas. The key stakeholders include shareholders and investors, customers, personnel, suppliers of goods and services, and the public sector. In terms of suppliers of goods and services, we also assess the global impacts, paying particular attention to suppliers of goods and services operating in risk countries. In 2014,

the difference between added value generated and distributed to stakeholders was EUR 4,005 (2013: 869) million for the development of own operations.

Monetary flows by stakeholder group in 2012-2014

EUR million		2014	2013 ¹⁾	2012
Generation of added value				
Income from customers	Income from customers on the basis of products and services sold and financial income.	4,901	5,630	6,398
Divestments	Income from divestment of shares, business activities or plants	3,219	210	
Purchases from suppliers	Cash payments to suppliers of raw materials, goods and services	-2,240	-2,766	-3,002
Fortum produced added value		5,880	3,073	3,396
Distribution of added value				
Employees compensation	Wages, salaries, remunerations and other indirect employee costs	-413	-460	-543 ²⁾
Funders compensation	Dividends paid to investors, interest, realised foreign exchange gains and losses and other financial expenses	-958	-1,212	-1,514
Public sector	Income and production taxes paid, support for society and donations	-504	-532	-593
Distributed to stakeholders		-1,875	-2,204	-2,650
Retained in business		4,005	869	746

1) Comparative period information for 2013 has been restated due to the accounting change for Fortum Värme.

2) Comparative period information for 2012 has been restated due to the accounting change for pensions.

The distribution of the economic added value generated by our operations to the most significant operating areas is reported in the following parts of the Annual Report:

- [Sales by country based on customer location](#)
- [Employee costs by country](#)

- [Taxes](#)

Investments are not included in the calculation of distributed added value in accordance with GRI, but we have included investments in our own assessment of economic impacts, as their annual volume and impact on the society is significant.

Capital expenditure by country and by production type is presented in Financial Statements [Note 19.2 Investments](#).

Read more about

- [Our economic impacts](#)

EC2 Financial implications and other risks and opportunities due to climate change

Climate change poses financial, regulatory and physical risks as well as opportunities for Fortum. As energy production and use is the largest source of greenhouse gases, the energy sector has a central role in building a low-carbon future. The energy industry has established visions and roadmaps of the future energy system and is prepared to invest in new climate-benign production capacity, provided that the related policy framework and preconditions of society are in place.

The primary impact of climate regulation for Fortum is the price of carbon dioxide in EU emissions trading and the cost arising from it. This also determines the financial value for the reduction of emissions. The price of CO₂ increases the production cost of fossil-based energy, but it also raises the prices of energy products. The best way to reduce the risk related to the price of carbon dioxide is to increase CO₂-free and low-carbon production capacity.

Our energy production in Finland, Poland and the Baltic countries is subject to the EU's emissions trading scheme. In Russia there is no comparable control system for greenhouse gases. In 2014, about 94% (2013: 90%) of our electricity production in the EU was CO₂-free. In 2014, we had a total of 49 (2013: 51) plants in six member states within the EU's emissions trading scheme. About 98% of the CO₂ emissions in the EU area were included in the emissions trading system. In 2014, Fortum was granted 1.4 (2013: 1.8) million tonnes in free emissions allowances. The company's emissions in the EU emissions trading scheme were 3.6

(2013: 5.1) million tonnes. Thus, in terms of emissions allowances, Fortum showed a deficit.

In the third, ongoing ETS period, 2013-2020, the volume of our free emissions allowances will decrease significantly, because electricity production has to purchase all allowances from the market or auctions. Only in Poland and the Baltic countries will our CHP plants receive free allowances also for electricity production on the basis of the derogation rules of the Emissions Trading Directive.

In Russia, our CO₂ emissions will grow in upcoming years as a result of the increasing energy production capacity. In Russia, carbon dioxide emissions do not yet have economic value.

Fortum is participating in two international climate funds, the Prototype Carbon Fund (PCF) and the Testing Ground Facility (TGF). In 2014, we received a total 227,047 emission reduction units from these funds. All emission reduction units received were CER units. We have so far received a total of 999,077 emission reduction units, and we estimate that we will still receive about 200,000 units during the funds' operating period.

Fortum is exposed to physical risks of climate change, including changes in weather patterns that may change energy demand and supply from, e.g., hydropower plants. More frequent and intensive storms may impact the operation and maintenance of the distribution network. Higher precipitation and temperature may affect hydropower production, dam safety and bioenergy supply. In addition to climate change mitigation, we are also taking measures to adapt our operations to climate change and to take the impacts into consideration, e.g. in production planning and in evaluating growth projects.

We expect the concern about climate change result in an increasing demand for low-carbon and energy-efficient energy products and solutions. Our know-how in CO₂-free hydro and nuclear power and in energy-efficient CHP as well as research and development in the future energy system and technologies can prove to be a competitive advantage. We are investing in CO₂-free production in Europe and see business opportunities in providing climate-benign energy solutions for sustainable urban living and the electrification of transport.

Read more about

- [Risks and opportunities of climate change for Fortum](#)

EC3 Coverage of the organization's defined benefit plan obligations

Our pension arrangements conform to the local regulations and practices in each operating country; the arrangements are discussed in Financial Statements [Note 32 Pension obligations](#).

EC4 Financial assistance received from government

We received financial support from the public sector in the form of production-related subsidies, investments, R&D and other significant grants (over EUR 0.5 million) totalling EUR 3 (2013: 8) million. The figure excludes free emission allowances and electricity certificates. The Finnish State owns 50.8% of Fortum.