

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.

Sustainability

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

The Group-level sustainability targets emphasise Fortum's role in society and measure not only environmental and safety targets, but also Fortum's reputation,

customer satisfaction, and the security of supply of power and heat.

The achievement of the sustainability targets is monitored through monthly, quarterly and annual reporting.

Sustainability target-setting and follow-up as well as the approval of Fortum's Sustainability policy and the review of Fortum's Sustainability Report are included in the working order of the Board of Directors.

The company is listed on STOXX Global ESG Leaders, the NASDAQ, OMX GES Sustainability Finland and ECPI® indices. Fortum is also included in the Carbon Disclosure Project's Nordic Climate Index and has received Prime Status (B-) rating by the German oekom research AG.

Sustainability indicators at the Group level

	Target	2014	Five-year average
Specific CO ₂ emissions from power generation in the EU as a five-year average, g/kWh	< 80	39	60
Specific CO ₂ emissions from total energy production (electricity and heat) as a five-year average, g/kWh	< 200	189	198
Overall efficiency of fuel use as a five-year average, %	> 70	64	63
Major EHS incidents	< 35	27	-
Energy availability of CHP plants, %	> 95	94.7	-
SAIDI, (minutes), Sweden	< 100	97	-
Lost workday injury frequency (LWIF) for own personnel	< 1.0	1.0	-
Lost workday injury frequency (LWIF) for contractors	< 3.5	3.2	-

Targets for reputation and customer satisfaction are monitored annually. Company reputation among the key stakeholders in the One Fortum Survey in 2014 improved to 70.4 (2013: 69.8) i.e. slightly below the target of 70.8. Customer satisfaction improved in all Divisions, and the Group target (70-74 points) was achieved in the Heat and Power Solutions business areas.

Economic responsibility

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

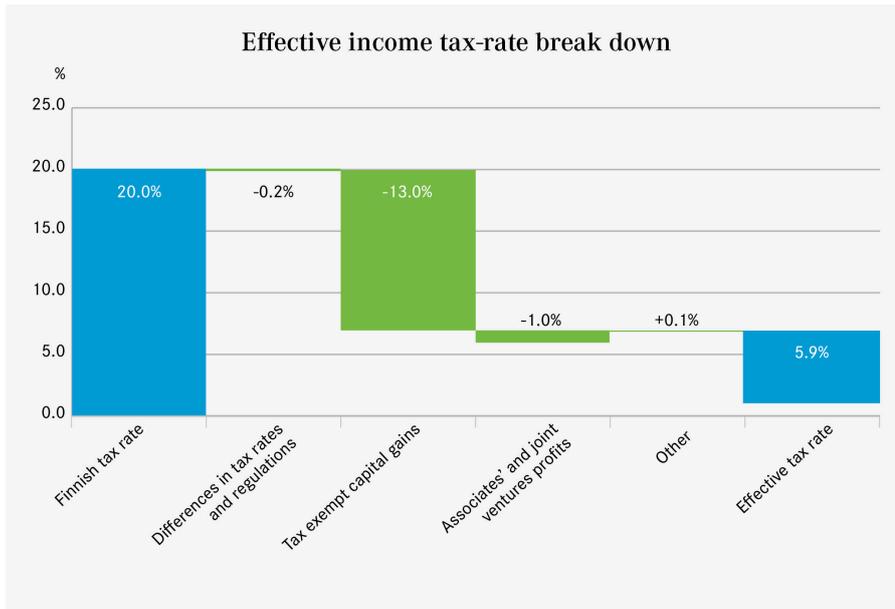
suppliers and other key stakeholders in the company's operating areas. Fortum's goal is to achieve excellent financial performance in strategically selected core areas through strong competence and responsible ways of operating. The key figures by which Fortum measures its financial success include return on capital employed (target: 12%), return on shareholders' equity (target: 14%) and capital structure (target: net debt/EBITDA around 3). In addition, as of January 1, 2014, Fortum had used the applicable Global Reporting Initiative (GRI) G4 indicators for reporting economic responsibility.

Fortum as a tax payer

Fortum supports social development and

well-being of the areas of operations by e.g. paying taxes. The tax benefits Fortum produces to society include not only corporate income taxes EUR 199 million (2013: 186) but also several other taxes. In 2014, Fortum's taxes borne were EUR 525 million (2013: 558). Taxes borne include corporate income taxes, production taxes, employment taxes, taxes on property and cost of indirect taxes. Production taxes include also production taxes and taxes on property paid through electricity purchased from associated companies.

Fortum's effective income tax rate was 5.9% (2013: 13.3%) and total tax rate 14.3% (2013: 31.8%). See also note 14 Income tax expense.

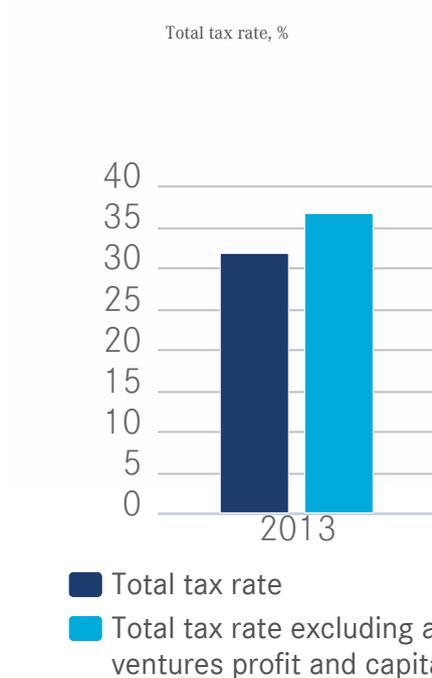
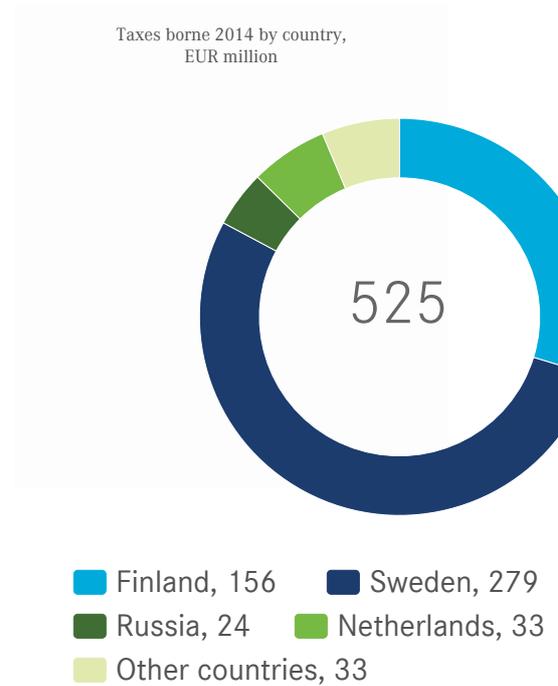


The effective income tax rate, excluding the changes in the tax rates, the impact of the share of profits of associated companies and joint ventures as well as non-taxable capital gains was 18.8% (2013: 22.7%).

The total tax rate excluding the impact of the share of profits of associated companies and joint ventures as well as non-taxable capital gains was 38.2% (2013: 36.6%). In addition, Fortum administers and collects different taxes on behalf of governments and authorities. Such taxes include e.g. VAT, excise taxes on power consumed by customers, payroll taxes and withholding taxes. The amount of taxes collected by Fortum was EUR 527 million (2013: 700).

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Environmental responsibility

Fortum's environmental responsibility emphasises mitigation of climate change, efficient use of resources as well as management of the impacts of our energy production, distribution and supply chain. Our know-how in CO₂-free hydro and nuclear power production and in energy-efficient CHP production is highlighted in environmental responsibility. Fortum's Group-level environmental targets are related to CO₂ emissions, energy efficiency as well as major environmental, health and safety (EHS)

incidents. At the end of December 2014, ISO 14001 certification covered 100% of Fortum's power and heat production and distribution operations worldwide.

Fortum's climate targets over the next five years are: specific CO₂ emissions from power generation in the EU below 80 grams per kilowatt-hour (g/kWh) and total specific CO₂ emissions from both electricity and heat production in all countries below 200 g/kWh. Both targets are calculated as a five-year average. At the end of December 2014, the five-year average for specific CO₂ emissions from power generation in the EU was at 60 g/kWh (2013: 60) and the total specific CO₂

emissions from energy production was at 198 g/kWh (2013: 197), both better than the target level.

Fortum's total CO₂ emissions in 2014 amounted to 20.2 million tonnes (Mt) (2013: 20.5), of which 3.6 Mt (2013: 5.1) were within the EU's emissions trading scheme (ETS). Since 2013, electricity production has not received free allowances in the EU ETS. The amount of free allowances for heat will gradually decrease during 2013-2020 as well. Fortum's free allowances in 2014 totalled 1.4 Mt.

Fortum's total CO ₂ emissions (million tonnes, Mt)	2014	2013	Change 14/13
Total emissions	20.2	20.5	-1%
Emissions subject to ETS	3.6	5.1	-29%
Free emission allocation	1.4	1.8	-22%
Emissions in Russia	16.6	15.3	8%

Fortum's energy-efficiency target was to raise the overall efficiency of fuel use to 70% as a five-year average. In 2014, the overall efficiency of fuel use was 64% (2013: 59%) and the five-year average after December 2014 was 63% (2013: 64%), meaning the target level was not met.

Fortum's target is for fewer than 35 major EHS incidents annually. In 2014, a total of 27 (2013: 35) major EHS incidents took place in Fortum's operations. This includes 15 environmental permit non-compliances, four explosions, four oil leaks into the environment, three fires and one International Nuclear Event Scale¹ incident (INES). These EHS incidents did not have significant environmental or financial impacts, but the explosion in the Pyrolysis unit in Joensuu in March 2014 caused a prolonged interruption in the production of pyrolysis oil. The cause of the explosion has been identified, and work to restart production is ongoing.

Social responsibility

In the area of social responsibility, Fortum's innovations and the secure supply of low-carbon power and heat support the development of society and increase well-being. Good corporate citizenship, reliable energy supply and ensuring a safe working environment for all employees and contractors at Fortum sites are emphasised. At the end of December 2014, OHSAS 18001 certification covered 75% of Fortum's power and heat production and distribution operations worldwide.

In 2014, the average energy availability of Fortum's CHP plants was 94.7%, which is slightly below the annual target level of 95%. In electricity distribution in Sweden, the cumulative SAIDI (System Average Interruption Duration Index) was 97 (2013: 103) minutes, while the annual target is less than 100 minutes.

The lost workday injury frequency (LWIF) for

Fortum employees was 1.0 (2013: 1.0) in 2014. This complies with the Group-level frequency target of less than one per million working hours for own personnel. The lost-workday injury frequency for contractors has improved and was 3.2 (2013: 3.9). Unfortunately, there were three fatal accidents for contractors in Fortum's operations, two in Sweden and one in Russia. Additionally, in Fortum Värme's CHP8 project, there was a serious accident in November in which two contractors' employees perished. Implementation of agreed actions to improve contractor safety continues with a specific focus on construction projects. Fortum's categorical target is to avoid serious injuries.

Fortum wants to conduct business with viable companies that act responsibly and comply with the Fortum Code of Conduct and the Fortum Supplier Code of Conduct. In 2014, Fortum audited altogether 13 suppliers located in Bulgaria, China, Czech Republic, Poland, Russia and Sweden.