

Fortum's Annual Report 2013

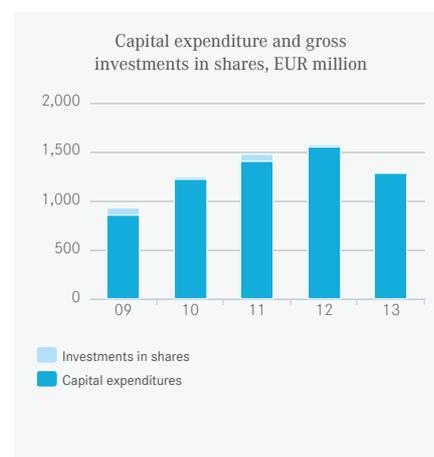
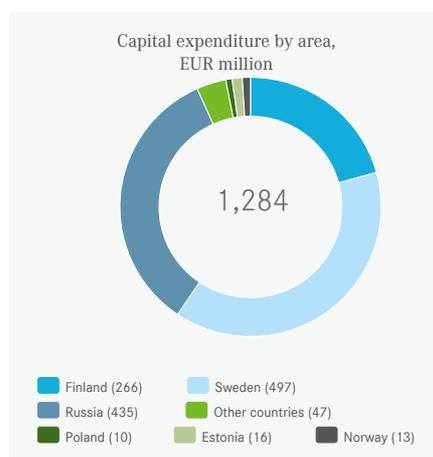
Fortum is an energy company highly committed to sustainability. Catering to the versatile needs of our customers, we generate, distribute and sell electricity and heat and offer related expert services.

Capital expenditure, investments & divestments of shares

| EUR million | 2013 | 2012 | 2011 |
|-------------------------------------|--------------|--------------|--------------|
| Capital expenditure | | | |
| Intangible assets | 49 | 35 | 27 |
| Property, plant and equipment | 1,235 | 1,523 | 1,381 |
| Total | 1,284 | 1,558 | 1,408 |
| Gross investments in shares | | | |
| Subsidiaries | 11 | 5 | 47 |
| Associated companies | 0 | 10 | 25 |
| Available for sale financial assets | 4 | 1 | 2 |
| Total | 15 | 16 | 74 |

In 2013, capital expenditures and investments in shares totalled EUR 1,299 million (2012: 1,574). Investments, excluding acquisitions, were EUR 1,284 million (2012: 1,558).

See also [Note 19.2 Capital expenditure](#).



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

| Type | Electricity capacity MW | Heat capacity MW | Supply starts ¹⁾ | |
|-----------------------------|-------------------------|------------------|-----------------------------|---------|
| Power | | | | |
| Hydro refurbishment | Hydropower | 10 | 2014 | |
| Heat | | | | |
| Värtan, Sweden | Biofuel (CHP) | 130 | 280 | Q2 2016 |
| Russia ¹⁾ | | | | |
| Nyagan 3 | Gas (CCGT) | 418 | | 2H 2014 |
| Chelyabinsk 1 | Gas (CCGT) | 248 | 175 | 1H 2015 |

| | | | | |
|---------------|------------|-----|-----|---------|
| Chelyabinsk 2 | Gas (CCGT) | 248 | 175 | 1H 2015 |
|---------------|------------|-----|-----|---------|

¹⁾ Start of commercial operation, preceded by test runs, licensing, etc.

Power

Through its interest in Teollisuuden Voima Oyj (TVO), Fortum is participating in the building of Olkiluoto 3 (OL3), a 1,600-MW nuclear power plant unit in Finland. Based on the progress reports received from the plant supplier, AREVA-Siemens Consortium, TVO is preparing for the possibility that the start of regular electricity production at OL3 may be postponed until 2016.

The Board of Directors of TVO proposed in February a new EUR 300 million shareholder loan commitment to the company's B-series shareholders. By means of the shareholder loan, TVO will prepare to maintain a sufficient level of equity in the OL3 project and cope with possible additional delays and costs in finalising the project. In June, all the B-series shareholders signed the loan agreement in accordance with the proposal made by the Board of Directors. Fortum's share of the new shareholder loan is 25% (EUR 75 million). In addition, Fortum has earlier committed to another EUR 300 million shareholder loan in the OL3 project; Fortum's share of that shareholder loan is 25% as well.

In June, TVO withdrew EUR 100 million from the first EUR 300 million shareholder loan commitment for the OL3 project; Fortum's share was EUR 25 million.

Wind power production was started at the Blaiken wind power park (75 MW) in the first quarter of the year. The first 30 windmills underwent test runs in February and commercial production was started in the second quarter. The Blaiken wind power park is co-owned by Skellefteå Kraft (60%) and Fortum (40%).

In July, Fortum completed the divestment of its 33% holding in Infratek ASA to a fund managed by Triton, following the approval of the Swedish and Norwegian competition authorities. The sales price was approximately EUR 38 million. A sales gain of EUR 11 million was booked in the Power Division's third-quarter 2013 results.

In September, Fortum and Metsähallitus agreed to sell their Kuolavaara-Keulakkopää (50 MW) and Joukhaisselkä (25 MW) pre-construction stage wind power projects in Lapland to the Impax New Energy Investors II Fund ("NEF II") managed by Impax Asset

Management. Fortum's share of the projects is 51% and Metsähallitus' 49%. The transaction will be implemented in phases and the sale is expected to be completed during the first quarter of 2014. The transaction will have a minor impact on Fortum's Power Division's financial results and it will be booked over several quarters. The sale price and other terms are not disclosed.

Heat

In January, the cornerstone for the new, EUR 500 million biofuel-fired CHP plant was laid in Stockholm (Värtan), Sweden; the plant is scheduled to be ready in 2016. This project is the largest ongoing investment in the Heat Division.

In May, Fortum's new waste-fuelled CHP plant was inaugurated in Klaipeda, Lithuania. Commercial operation started at the end of the first quarter. The Klaipeda CHP plant has a capacity of 60 MW heat and 20 MW electricity. With an efficiency of almost 90%, it is able to incinerate 230,000 tonnes of waste and biomass annually, and by replacing gas-fired capacity it reduces CO₂ emissions by approximately 100,000 tonnes annually.

In June, a new bio-fuelled CHP plant was inaugurated in Järvenpää, Finland. Commercial operation started in April. The plant has a capacity of 63 MW heat and 23 MW electricity. Also in June, Fortum announced that it is acquiring district heating operations from the Estonian company Eraküte in the city of Tartu. Eventually, Fortum plans to connect the acquired network area to Fortum's current network supplied by the company's biomass and peat-fired Tartu CHP plant. This will enable a larger use of biomass, reduce CO₂ emissions and increase efficiency of heat production. After the acquisition, Fortum owns the whole district heating network of Tartu.

In September, Fortum inaugurated the first large-scale biomass CHP plant in Latvian city of Jelgava. The new plant covers approximately 85% of the city's district heating demand. Fortum's new power plant uses wood chips as fuel and replaces old natural gas-fired heat production in Jelgava. The production capacity of the Jelgava power plant is 23 MW electricity and 45 MW heat. The plant will produce approximately 110

GWh of electricity and 230 GWh of heat per year.

In October, Fortum disclosed that it had sold its Kuusamo combined heat and power plant to the Finnish energy company Adven Oy. The sale had a minor impact on Fortum's financial result.

In November, Fortum sold its 50% stake in the Finnish district heating company Riihimäen Kaukolämpö Oy to the City of Riihimäki and to Riihimäen Kaukolämpö Oy. The divestment had a minor impact on Fortum's financial result. The total sales price was EUR 11 million.

In November, Fortum inaugurated the second unit at the Brista CHP plant in Sigtuna, Stockholm. Brista 2 produces heat and power from 240,000 tonnes of sorted municipal and industrial waste annually and has a capacity of 57 MW heat and 20 MW electricity. The annual heat production is about 500 GWh, and the estimated annual electricity production is 140 GWh. Fortum co-owns the plant (85%) together with the municipal energy company Sollentuna Energi (15%). Final testing was started late 2013.

In 2013, Heat launched a new commercial concept for bio-oil. In the future, besides heat and electricity, CHP+ plants will produce bio-oil; in these plants, pyrolysis is integrated into the production process. The commercial scale CHP+ plant is the first of its kind in the world and is being integrated with Fortum's Joensuu CHP plant in Finland. The Joensuu bio-oil plant's annual production of 50,000 tonnes corresponds to the heating needs of more than 10,000 households. Fortum Otso® bio-oil can be used at heat plants or in industrial steam production as a replacement for heavy and light fuel oil, and in the future, bio-oil can be used as a raw material for various biochemicals or traffic fuels.

In December, Fortum announced that it sold its combined heat and power (CHP) plant as well as its natural gas and district heating network in the town of Nokia to the Finnish energy company Leppäkosken Sähkö. Fortum also announced the sale of the Kauttua combined heat and power plant in Eura, in south-western Finland, to the Finnish energy company Adven Oy. The sales had a minor impact on Fortum's financial performance and the parties have agreed not to disclose the sales price. In addition, in December,

Fortum's Uimaharju combined heat and power plant ownership was transferred to Stora Enso as part of an arrangement signed in 1990. According to the agreement, the transfer price paid by Stora Enso is approximately EUR 15 million. The impact on Fortum's financial result was marginal.

Russia

In late March, Fortum finished the final stages in the construction of its Nyagan power plant unit 1. Accordingly, the company started receiving capacity payments for the unit as of 1 July 2013. The unit's capacity was certified to exceed 420 MW.

As of 1 December, Nyagan unit 2 was commissioned and started receiving capacity payments. The second unit's certified capacity is 424 MW.

Distribution

In June, Fortum agreed to sell its 47.9% ownership in the Swedish energy company Härjeåns Kraft AB to the Finnish energy

company Oy Herrfors Ab, a subsidiary of Katternö Group. The sales price was SEK 445 million (approximately EUR 51 million). The transaction was completed in July and Fortum booked a sales gain of EUR 17 million to Distribution's third-quarter 2013 financial result.

In December, Fortum disclosed that it had completed the assessment of the future alternatives of its electricity distribution business; the assessment was launched in January 2013. After thorough consideration, the company concluded that divesting the electricity distribution business is the best solution for the business and its customers, Fortum's shareholders and the company's other businesses. Fortum is evaluating the possible further divestment opportunities country by country.

In December 2013, Fortum disclosed that it has agreed to sell its electricity distribution business in Finland to Suomi Power Networks Oy. The total consideration is EUR 2.55 billion on a debt- and cash-free basis. Fortum expects to complete the divestment process during the first quarter of 2014, subject to the necessary regulatory approvals as well as

customary closing conditions. Fortum expects to book a one-time sales gain of EUR 1.8-1.9 billion corresponding to approximately EUR 2.00 per share.

Other

In June, Fortum acquired a solar power plant in the state of Rajasthan, in north-western India. The company's short-term ambition is to build a small photo-voltaic (PV) solar portfolio in order to gain experience in different solar technologies and in operating in the Indian power market. The power plant's nominal peak capacity is 5.4 MW and its annual production is approximately 9 gigawatt-hours. The plant will receive a higher, guaranteed electricity price for 25 years. The period and the prices for power generation under the government's power purchase agreement are defined to ensure a sufficient return on investment. In the short term, Fortum is looking to invest some tens of millions of euros – including this acquisition – in developing its PV solar competence and operations in India.