

For derivatives, the receivable is the sum of the positive fair values, i.e. the gross amount. Netted amount includes negative fair values where a valid netting agreement is in place with the counterpart. 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 counterparts 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 counterparts 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 counterparts not rated by Standard & Poor's or Moody's. For these counterparts, 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. Maintaining a strong balance sheet and the flexibility of the capital structure is a priority. The Group monitors the capital structure based on Comparable net debt to EBITDA ratio. Net debt is calculated as interest-bearing liabilities less liquid funds. EBITDA is calculated by adding back depreciation, amortisation and impairment charges to operating profit, whereas Comparable EBITDA is calculated by deducting items affecting comparability and net release of CSA provision from EBITDA. In September 2010 with launching the revised strategy Fortum adjusted its net debt to EBITDA target to be around 3. The earlier target was a range of 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%.

In December 2011, Standard and Poor's revised its outlook rating for Fortum's Corporation from (stable) to (negative), but at the same time affirmed the (A) long-term rating. Fortum Corporation's long-term credit rating from Moody's, A2 (stable), remained unchanged.

NET DEBT / EBITDA RATIOS

EUR million	Note	2011	2010
Interest-bearing liabilities	33	7,770	7,382
Less: Liquid funds ¹⁾	29	747	556
Net debt		7,023	6,826
Operating profit		2,402	1,708
Add: Depreciation, amortisation and impairment charges		606	563
EBITDA		3,008	2,271
Less: Items affecting comparability		600	-125
Less: Net release of CSA provision		34	-
Comparable EBITDA		2,374	2,396
Net debt / EBITDA		2.3	3.0
Comparable net debt / EBITDA		3.0	2.8

¹⁾ Including cash balances of EUR 16 million (2010: 0) classified as assets held for sale in balance sheet.

5 SEGMENT REPORTING

5.1 Fortum's business structure

Fortum's business operations are organised in four divisions and four corporate staff functions. The business divisions are Power, Heat, Russia and Electricity Solutions and Distribution. The Electricity Solutions and Distribution (ESD) division consists of business areas Distribution and Electricity Sales. The staff functions are Finance, Corporate Relations and Sustainability, Corporate Human Resources and Corporate Strategy and R&D. Fortum also has a Trading and Industrial Intelligence (TII) unit that manages hedging activities and fuel purchasing activities on behalf of Power, Heat, ESD divisions and provides market analysis to support decision making in Fortum. The shared service centers, as parts of the staff functions, charge the companies according to service level agreements.

5.2 Segment structure in Fortum

The business divisions (Power, Heat and Russia) and the business areas of ESD division (Distribution and Electricity Sales) are Fortum's reportable segments under IFRS.

Below is the description of the reportable segments:

Power consists of Fortum's power generation, physical operation and trading 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 Spot.

Heat's main business is combined heat and power (CHP) production and district heating activities in the Nordic countries and other parts of the Baltic rim. The power from CHP-production is sold to Nord Pool Spot and to end customers mainly by long-term contracts.

Russia consists of power and heat generation and sales in Russia. It includes OAO Fortum and Fortum's over 25% interest in TGC-1, which is an associated company and consolidated according to the equity method.

Distribution 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 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.

Electricity Sales is responsible for retail sales of electricity to a total of 1.2 million private and business customers as well as other retailers in Finland, Sweden and Norway. It is the leading seller of eco-labeled and CO₂-free electricity in the Nordic countries. Electricity Sales buys its electricity from Nord Pool Spot. Electricity supply in the Nordic countries is a deregulated business since 1995 which means that customers can freely change electricity supplier.

Other segment includes mainly the shareholding in the associated company Hafslund ASA and Fortum Group staff functions.

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 comparable return on net assets. Fortum discloses in the segment information operating profit, comparable operating profit, comparable EBITDA and share of profit from associated companies 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 difference between Comparable operating profit and Operating profit is that Comparable operating profit does not include "Items affecting comparability", which are:

- 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 7 Fair value changes of derivatives and underlying items in income statement on page 65.

- 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 35 Nuclear related assets and liabilities on page 89.

The segments' 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.

Gross divestments in shares include divestments in subsidiary shares, shares in associated companies and other shares in available for sale financial assets. Divestments in subsidiary shares are net of cash and grossed with interest-bearing liabilities in the sold company.

✚ See also Key figures on page 99, Definitions of key figures on page 104 and Quarterly financial information on page 114.

✚ Quarterly segment information from 2005 to 2011 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 Spot and Electricity Sales buys its electricity from Nord Pool Spot. Eliminations of sales include eliminations of sales and purchases with Nord Pool Spot 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.

5.5 Segment information 2011

INCOME STATEMENT

EUR million	Note	Power	Heat	Russia	Distribu- tion	Electrici- ty Sales	Other	Netting and elimina- tions ¹⁾	Total
Sales		2,481	1,737	920	973	900	108	-958	6,161
of which internal		-24	8	-	15	95	115	-209	0
External sales		2,505	1,729	920	958	805	-7	-749	6,161
Depreciation, amortisation and impairment		109	193	108	187	2	7	-	606
Comparable EBITDA		1,310	471	148	482	29	-66	-	2,374
Comparable operating profit		1,201	278	74	295	27	-73	-	1,802
Non-recurring items	6	2	86	0	193	3	0	-	284
Changes in fair values of derivatives hedging future cash-flow	6, 7	301	16	-	-10	-27	64	-	344
Nuclear fund adjustment	6, 35	-28	-	-	-	-	-	-	-28
Operating profit		1,476	380	74	478	3	-9	-	2,402
Share of profit of associated companies and joint ventures	24, 35	3	19	30	14	2	23	-	91
Finance costs – net									-265
Income taxes									-366
Profit for the period									1,862

¹⁾ Netting and eliminations include eliminations of Group internal sales and netting of Nord Pool Spot transactions. Sales and purchases with Nord Pool Spot, EUR 749 million, 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.

IMPAIRMENT LOSSES AND RESTRUCTURING COSTS

EUR million	Power	Heat	Russia	Distribu- tion	Electrici- ty Sales	Other	Total
Recognised impairment losses for trade receivables	0	-4	-2	-2	-2	-	-10
Recognised impairment losses for intangible assets and property, plant and equipment	0	0	0	0	-	-	0
Restructuring costs	0	0	-1	-1	0	0	-2

Impairment losses and restructuring costs are included in comparable operating profit.

ASSETS AND LIABILITIES ²⁾

EUR million	Power	Heat	Russia	Distribu- tion	Electrici- ty Sales	Other	Elimina- tions	Total
Non-interest-bearing assets	6,213	4,437	3,249	4,086	249	233	-306	18,161
Participations in associated companies and joint ventures	921	160	443	101	0	395		2,020
Assets included in Net assets	7,134	4,597	3,692	4,187	249	628	-306	20,181
Interest-bearing receivables								1,219
Deferred taxes								150
Other assets								717
Liquid funds								731
Total assets								22,998
Liabilities included in Net assets	887	406	419	598	238	420	-306	2,662
Deferred tax liabilities								2,013
Other liabilities								392
Total liabilities included in Capital employed								5,067
Interest-bearing liabilities								7,770
Total equity								10,161
Total equity and liabilities								22,998

INVESTMENTS/DIVESTMENTS

EUR million	Note	Power	Heat	Russia	Distribu- tion	Electrici- ty Sales	Other	Total
Gross investments in shares	8, 24	17	32	24	-	-	1	74
Capital expenditure	22, 23	131	297	670	289	5	16	1,408
of which capitalised borrowing costs		0	4	49	0	-	-	53
Gross divestments of shares		2	115	35	323	17	0	492

COMPARABLE RETURN ON NET ASSETS ²⁾

	Net assets by segments EUR million	Return on net assets (%)	Comparable return on net assets (%)
Power	6,247	24.6	19.9
Heat	4,191	9.9	7.4
Russia	3,273	3.5	3.5
Distribution	3,589	13.7	8.6
Electricity Sales	11	4.2	33.5
Other	208	5.3	-12.7

²⁾ Including assets and liabilities relating to Assets held for sale and related liabilities.

+ See also Note 9 Assets held for sale on page 67.

EMPLOYEES

	Power	Heat	Russia	Distribu- tion	Electrici- ty Sales	Other	Total
Number of employees 31 Dec	1,847	2,504	4,379	898	519	633	10,780
Average number of employees	1,873	2,682	4,436	902	510	607	11,010

5.6 Segment information 2010

INCOME STATEMENT

EUR million	Note	Power	Heat	Russia	Distribu- tion	Electrici- ty Sales	Other	Netting and elimina- tions ¹⁾	Total
Sales		2,702	1,770	804	963	1,798	51	-1,792	6,296
of which internal		-281	-8	-	18	158	169	-56	0
External sales		2,983	1,778	804	945	1,640	-118	-1,736	6,296
Depreciation, amortisation and impairment		-100	-187	-86	-178	-2	-10	-	-563
Comparable EBITDA		1,398	462	94	485	13	-56	-	2,396
Comparable operating profit		1,298	275	8	307	11	-66	-	1,833
Non-recurring items	6	6	29	45	12	-	1	-	93
Changes in fair values of derivatives hedging future cash-flow	6, 7	-170	-1	-	2	35	-82	-	-216
Nuclear fund adjustment	6, 35	-2	-	-	-	-	-	-	-2
Operating profit		1,132	303	53	321	46	-147	-	1,708
Share of profit of associated companies and joint ventures	24, 35	-25	31	8	19	1	28	-	62
Finance costs – net									-155
Income taxes									-261
Profit for the period									1,354

¹⁾ Netting and eliminations include eliminations of Group internal sales and netting of Nord Pool Spot transactions. Sales and purchases with Nord Pool Spot, EUR 1,736 million, 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.

IMPAIRMENT LOSSES AND RESTRUCTURING COSTS

EUR million	Power	Heat	Russia	Distribu- tion	Electrici- ty Sales	Other	Total
Recognised impairment losses for trade receivables	1	0	-26	-1	-1	0	-27
Recognised impairment losses for intangible assets and property, plant and equipment	0	0	-2	-	-1	-	-3
Restructuring costs	0	0	-1	-1	-4	-1	-7

Impairment losses and restructuring costs are included in comparable operating profit.

ASSETS AND LIABILITIES ²⁾

EUR million	Power	Heat	Russia	Distribu- tion	Electrici- ty Sales	Other	Elimina- tions	Total
Non-interest-bearing assets	6,022	4,574	2,750	3,990	650	286	-576	17,696
Participations in associated companies and joint ventures	912	159	423	217	13	437		2,161
Assets included in Net assets	6,934	4,733	3,173	4,207	663	723	-576	19,857
Interest-bearing receivables								1,208
Deferred taxes								141
Other assets								202
Liquid funds								556
Total assets								21,964
Liabilities included in Net assets	1,128	551	356	524	453	694	-576	3,130
Deferred tax liabilities								1,725
Other liabilities								985
Total liabilities included in Capital employed								5,840
Interest-bearing liabilities								7,382
Total equity								8,742
Total equity and liabilities								21,964

INVESTMENTS/DIVESTMENTS

EUR million	Note	Power	Heat	Russia	Distribu- tion	Electrici- ty Sales	Other	Total
Gross investments in shares	8, 24	25	1	-	0	-	1	27
Capital expenditure	22, 23	97	304	599	213	0	9	1,222
of which capitalised borrowing costs		0	11	34	-	-	-	45
Gross divestments of shares		-	52	43	46	-	6	147

COMPARABLE RETURN ON NET ASSETS ²⁾

	Net assets by segments EUR million	Return on net assets (%)	Comparable return on net assets (%)
Power	5,806	19.5	22.3
Heat	4,182	8.4	7.7
Russia	2,817	2.4	0.7
Distribution	3,683	9.7	9.3
Electricity Sales	210	38.4	9.3
Other	29	-48.2	-7.7

²⁾ Including assets and liabilities relating to Assets held for sale and related liabilities.

⊕ See also Note 9 Assets held for sale on page 67.

EMPLOYEES

	Power	Heat	Russia	Distribu- tion	Electrici- ty Sales	Other	Total
Number of employees 31 Dec	1,819	2,394	4,294	962	525	591	10,585
Average number of employees	1,891	2,482	4,555	1,098	538	592	11,156

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 Electricity Sales operate mainly in Finland and Sweden, whereas Heat operates in all of these geographical areas except Russia. Other countries are mainly Latvia, Lithuania 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	2011	2010
Power sales excluding indirect taxes	3,458	3,615
Heat sales	1,602	1,596
Network transmissions	905	912
Other sales	196	173
Total	6,161	6,296

Heating sales include sale of delivered heat and transmission of heat.

Due to the large number of customers and the variety of its business activities, there is 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	2011	2010
Nordic	4,760	5,039
Russia	923	802
Poland	207	169
Estonia	105	99
Other countries	166	187
Total	6,161	6,296

The Nordic power production is not split by countries since Nordic power production is mainly sold through Nord Pool Spot.

CAPITAL EXPENDITURE BY LOCATION

EUR million	2011	2010
Finland	239	190
Sweden	392	300
Russia	670	599
Poland	18	45
Estonia	12	53
Norway	19	15
Other countries	58	20
Total	1,408	1,222

SEGMENT ASSETS BY LOCATION ¹⁾

EUR million	2011	2010
Finland	4,305	4,755
Sweden	9,775	9,980
Russia	3,249	2,747
Poland	346	356
Estonia	263	269
Norway	245	254
Other countries	202	136
Eliminations	-224	-801
Non-interest bearing assets	18,161	17,696
Participations in associates and joint ventures	2,020	2,161
Total	20,181	19,857

¹⁾ Including assets and liabilities relating to Assets held for sale and related liabilities.

➔ See also Note 9 Assets held for sale on page 67.

NUMBER OF EMPLOYEES ON 31 DECEMBER BY LOCATION

	2011	2010
Finland	2,683	2,609
Sweden	2,040	2,257
Russia	4,376	4,289
Poland	859	633
Estonia	331	350
Norway	139	137
Other countries	352	310
Total	10,780	10,585