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Fortum Annual General Meeting, 11 April 2012

President and CEO Tapio Kuula

Madam Chairman,
Valued shareholders,
Ladies and gentlemen,

Last year was exceptional for Fortum and for the entire energy sector. The Fukushima nuclear power accident in Japan, tensions in the Middle East and economic uncertainty in Europe were among the challenges faced by players in the sector. Recent events have shown that a strong business foundation and the ability to renew are emphasised in the changing operating environment.

In my opinion, Fortum has performed well in 2011. Our earnings per share and operating profit developed favourably. Profitability was also at a good level and our balance sheet structure and liquidity remained strong. Additionally, we successfully developed our business and researched future energy solutions.

The year in review also included some surprising challenges. The winter storms that raged late in the year were the strongest in Finland in over 30 years. They especially hit southern and western Finland, where the major part of Fortum's grid is located.

Based on the weather forecasts, we prepared for the situation by increasing the number of repair personnel on standby. However, our preparedness proved to be insufficient. Wind gusts exceeding the predictions coupled with the thawed and water-saturated ground caused an unexpected situation in which trees fell along with their roots. Since a significant part of the power lines are in the forest, the damages were exceptionally large.

Because of the winter storm, at the worst point, one-third of our customers were without power. This should not have happened and I can’t be satisfied with our performance, although we restored power to 100,000 customers during the first 24 hours. There were serious shortcomings particularly in our customer service and in our provision of information to customers and in customer communications.

We have learned from the storms and have initiated development measures so that we can serve our customers even better in the future. Our long-term target is to double the number of customers within the scope of weather-proof distribution. In addition, we plan to cut the number of power outages in half, even though a big share of our grid is located outside populated areas. This means additional investments into electricity network construction. Among

other things, underground cabling will be accelerated, aerial lines will be moved from the forest to the roadside, management of adjacent forests will be stepped up and grid automation will be increased.

In my opinion, the improvements to the operational reliability of the electricity network that were recently proposed by the authorities are a move in the right direction. Because electricity distribution is regulated, it is important also to ensure that the regulatory model gives network companies the opportunity to accelerate the investment pace. When investments and costs are spread over a longer period of time, the price increase pressures on electricity distribution costs can also be kept within reasonable limits.

Last year's devastating tsunami in Japan and the ensuing Fukushima nuclear power accident was also felt by Fortum. For us at Fortum, safety is always the paramount and primary factor guiding operations. The management of severe reactor accidents has been developed already for a long time at Fortum's Loviisa nuclear power plant and at our co-owned plants in Finland and Sweden. Moreover, a big part of Fortum's research and development work focuses specifically on nuclear safety.

For more than 30 years now, Fortum has increased its expertise in nuclear safety issues. The results are well demonstrated by the fact that we are supplying Fukushima's damaged power plant in Japan with ion exchange materials developed by Fortum to purify radioactive water.

In nuclear stress tests initiated by the EU, no significant new requirements emerged in our nuclear power plants. The issues raised were already included in the programme aiming for continuous improvement of safety. The development targets of the Loviisa power plant can be implemented within the framework of the annual investment programmes.

It is natural that a nuclear power accident like the one at Fukushima raises questions about the safety of nuclear power. However, climate change is and will remain a global challenge in need of solutions. For this reason, I believe the world will continue to need nuclear power. Fortum's nuclear power expertise is at a very high level internationally, and that's why we view, e.g., the development of existing nuclear power plants as an interesting business area.

Leveraging the Nordic business, creating economic added value in Russia and building a platform for future growth are at the core of Fortum's strategy. The execution of the strategy is supported by our strong competence in carbon dioxide-free hydro and nuclear power production, in combined heat and power production and in operating in the energy markets.

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All this is based on sustainability; to us, this means balanced consideration of economic, social and environmental responsibility in our operations. We believe in strong technological development of solar energy and that it will become more competitive.

The majority of Fortum's revenue is generated from Nordic electricity and heat production. Our short-term goal is for successful completion of our current investment programme. Fortum also aims to create added value with electricity retail sales and distribution. In the long-term, Fortum's goal is to strengthen its strong competitive position in the Nordic markets.

For Fortum, realisation of the electricity wholesale market reform in Russia was one of the key conditions for investing in the country. The wholesale markets have since been opened and the reform has progressed as planned and in accordance with the political promises made to investors.

In 2011, our investment programme in Russia advanced and we took into commercial use three new units. Our target is to commission two new units at the Nyagan power plant this year and the third unit in 2013.

The impact of the new units can already be seen in the 2011 comparable operating profit, which in the Russia Division increased from 8 million euros to 74 million euros. After completing the investment programme, Fortum's goal is to achieve an operating margin level of about 500 million euros in our Russia Division and to create positive economic added value in Russia.
Fortum also has significant heat business in Russia. The potential for improved energy efficiency in the heat sector in Russia is significant and we are actively participating in the development of it.

In Europe, we will sharpen our focus on energy- and resource-efficient combined heat and power production. We have invested in new biofuel-fired combined heat and power plants in Järvenpää, Finland, and in Jelgava, Latvia. Plants that utilise biofuel and industrial and municipal waste are under construction in Klaipeda, Lithuania, and in Brista, Sweden.

During the year, we created also a platform for future growth. In France we are preparing for participation in the hydropower concession bidding. We have also started mapping business opportunities in India. The growth opportunities there are based primarily on energy-efficient combined heat and power production, in which we aim to use also local biofuels.

Fortum achieved its 2011 climate targets, although the five-year average of our specific CO2 emissions from total energy production increased by nearly 10% on the previous year. The increase was due to our commissioning of new plants in Russia, which raised the relative share of natural gas-based production.

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Our specific CO2 emissions from electricity generation in the EU were slightly smaller than in 2010. In a European comparison, Fortum's specific CO2 emissions, including Russian operations, were about half of the average in the sector.

There is still a lot of work to be done to achieve the climate targets in Europe. We need steady and consistent policy guidance, as there are no quick solutions for an emissions-free energy future.

Investments in the energy sector are made for the long term – that is why everything that can be done should be done now, also in the energy policy, to ensure a clean energy future. Most important is that the decisions are understandable and lead to the desired outcome.

Energy's security of supply and price have been among the topics of concern in the European energy markets. I consider it very important that development is market-driven and long term and that the game rules in Europe are harmonised. Broader markets that function efficiently benefit customers, society and the environment. They enable the right investments in the right place at the lowest possible cost.

The overlapping of different targets and steering mechanisms that dilute the effectiveness of one another has become a significant problem in Europe. The danger is that the set target of limiting the warming of the climate to a maximum of two degrees is not achieved. In order to indicate the vital importance of climate change mitigation as a political priority, the EU should waste no time in setting a sufficiently ambitious intermediate target for CO2 emissions reduction on the way to the 80-95% emissions reduction target by 2050. This would be the best option for the investment environment; it would also encourage the use of existing low-emissions technologies and would accelerate the adoption of new ones. If this were done, there certainly would no longer be a need for separate renewable energy or energy-efficiency targets. It would clarify political target-setting while bringing efficiency and significant cost savings.

I believe that energy will have to be produced and consumed more and more sensibly in the future because global population growth is increasing the consumption of and the demand for energy. As the standard of living rises and the environmental criteria become further emphasised, electricity's share of total energy consumption will grow. Energy demand will, in fact, outpace supply. The ability to meet future needs in a sustainable manner requires an energy system that is based on carbon dioxide-free electricity production, energy security and energy efficiency.

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It is Fortum's view that the world will gradually shift from conventional electricity production technologies, exhaustible energy sources and fossil fuels towards a so-called Solar Economy. In a Solar Economy, the source of energy is essentially inexhaustible: the amount of energy received from the sun in one day is enough to cover the annual energy need of the entire planet.

Fortum already extensively uses production forms that are part of the Solar Economy; hydropower and bioenergy are two examples. We also believe that we can develop actual business in the direct use of solar energy already in the near future.

Solar technology has advanced much faster than expected in recent years; it has been predicted that large-scale solar energy production can be competitive in many regions already by the end of this decade.

We are also actively researching other future energy production technologies, like biofuels for combined heat and power production, and wave power. In addition to wave power demonstration plants in Sweden and Portugal, we started research and development collaboration with the marine industry giant DCNS in France at the end of 2011.

The new bio-oil plant to be constructed at the Joensuu combined heat and power plant utilises new technology. The bio-oil plant is based on pyrolysis technology and is the world's first of its kind on an industrial scale.

In addition to electricity and district heat, the plant will eventually produce 50,000 tonnes of bio-oil annually. The raw materials for the bio-oil will consist of forest residues and other wood biomass; the bio-oil will replace fossil fuels. Replacing heavy fuel oil with 200 gigawatthours (GWh) of pyrolysis oil will reduce carbon dioxide emissions by about 60,000 tonnes.

Fortum has been able to count on the expertise of its personnel in all of its work. I would like to take this opportunity to thank all Fortum employees for their solid contribution to achieve our shared goals.

I believe that good leadership is the foundation for employee well-being, engagement and performance. In 2011, we continued our long-term leadership development programme. The programme focuses on strategy development and business planning, and on strengthening leadership skills and the corporate culture as one complete package.

Our everyday work is guided by our key behaviours: challenging, co-creating, coaching and celebrating. Through these behaviours, our values – accountability, creativity, respect and honesty – are strongly present throughout our operations.

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Fortum's goal is to be a preferred, engaging employer for skilled employees. Fortum encourages employees to remain in the working world, and the average age of the employees retiring has in fact steadily risen in recent years. In 2011, we had more than 750 employees over the age of 60. However, working capacity must be further promoted in order to impact career length. This goal is also supported by our ForCARE work well-being programme, which aims to improve safety and to enhance the working capacity of employees throughout their career.

I would like to take this opportunity to thank our Management Team for the past year and for the close collaboration. Our Management Team includes:

Anne Brunila, who is Executive Vice President of Corporate Relations and Strategy.

Alexander Chuvaev, Executive Vice President of the Russia Division; he is also General Director of OAO Fortum and the Country responsible for Russia.

Mikael Frisk, Senior Vice President of Corporate Human Resources.

Timo Karttinen is Executive Vice President of Electricity Solutions and Distribution Division; he is also responsible for the Trading and Industrial Intelligence functions and is the Country responsible for Finland and Norway.

Juha Laaksonen is Executive Vice President and Chief Financial Officer. In February, we announced that he will retire at the beginning of 2013. I want to thank Juha already in this conjunction for his long and meritorious work at Fortum.

Per Langer is Executive Vice President of the Heat Division; he is also responsible for the Group's research and development functions and innovations. Per is the Country responsible for Sweden, Poland and the Baltics.

Matti Ruotsala is Executive Vice President of Fortum's Power Division, which has the most significant role in creating the company's financial result.

In addition to the Management Team, I would like to introduce **Markus Rauramo** (M.Sc., Political Science); he will join Fortum after summer and will start as CFO at the beginning of September.

To you, valued shareholders, I extend my utmost gratitude for the past year. We will continue working to grow our shareholder value and to resolutely develop our operations in spite of uncertainty in the global economy.

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A special note of thanks is in order to all Fortum customers. As a result of the winter storms, some of them had to wait days – and, in some cases, even weeks – for power to be restored. We will do everything we can to serve our customers better in all situations, also in extreme weather conditions.

I have been President and CEO of Fortum for three interesting years now. Each year has been unique and each has ushered in new challenges. Global events and the surprising twists and turns they bring will surely affect Fortum and the energy sector also in the years ahead. Even with a clearly outlined roadmap to an emissions-free future, there are bound to be bumps along the way. Nevertheless, I am very proud of the way Fortum as a company has managed to overcome obstacles and to instead see them as opportunities. Despite the uncertainties in the operating environment, we have what it takes to succeed also in the future.