

FORTUM
Capital
Markets
Day/10

2010/09/16

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FORTUM IN
Russia

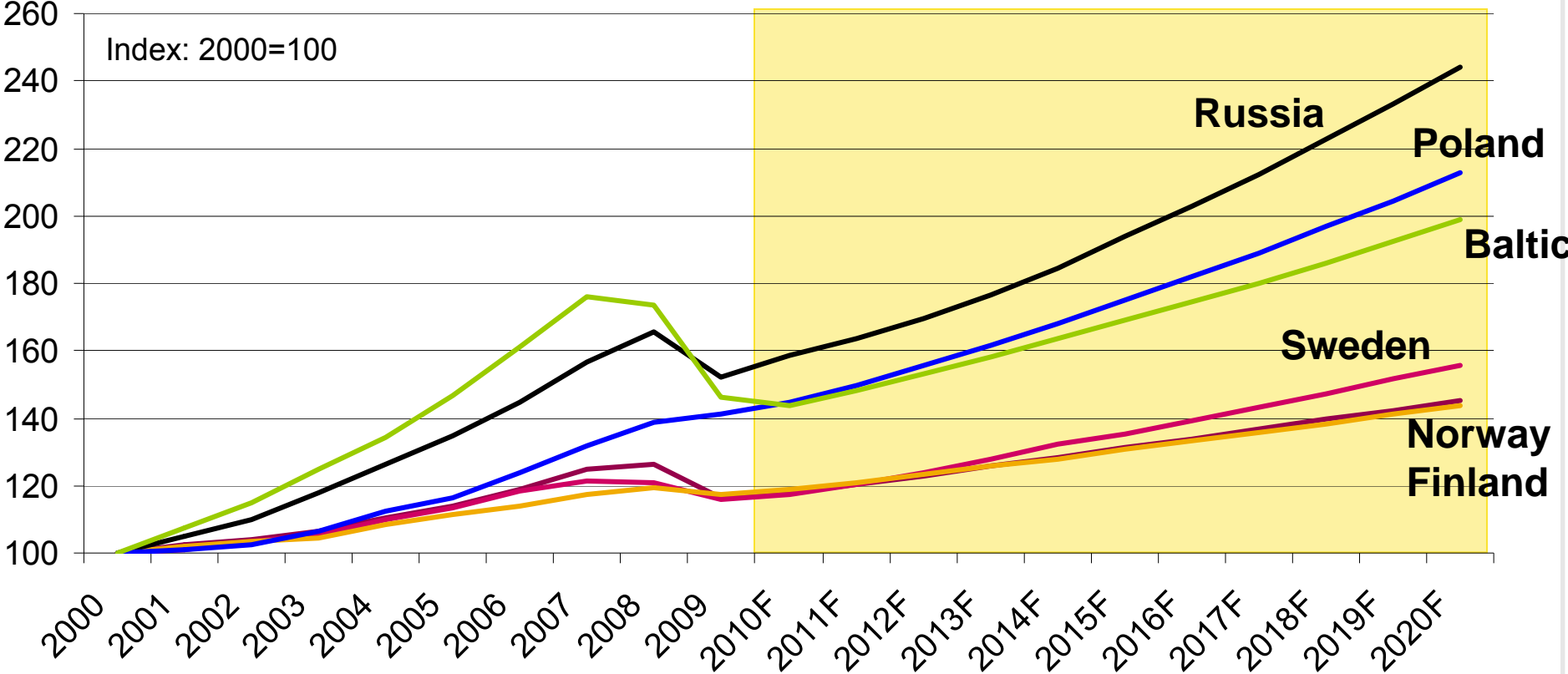
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Agenda

- Market & demand
- Russian power sector reform
- Fortum assets in Russia
- OAO Fortum investment programme
- Efficiency improvement programme

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Russia, the fastest growing of Fortum's market areas

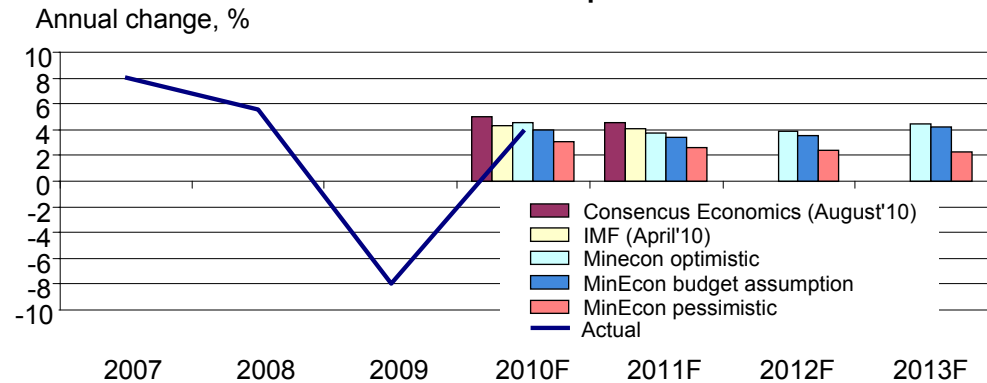


Source: IMF World Economic Outlook April 2010 to 2015, and average 2014-2015 growth for period 2016-2020

Economic outlook brightening

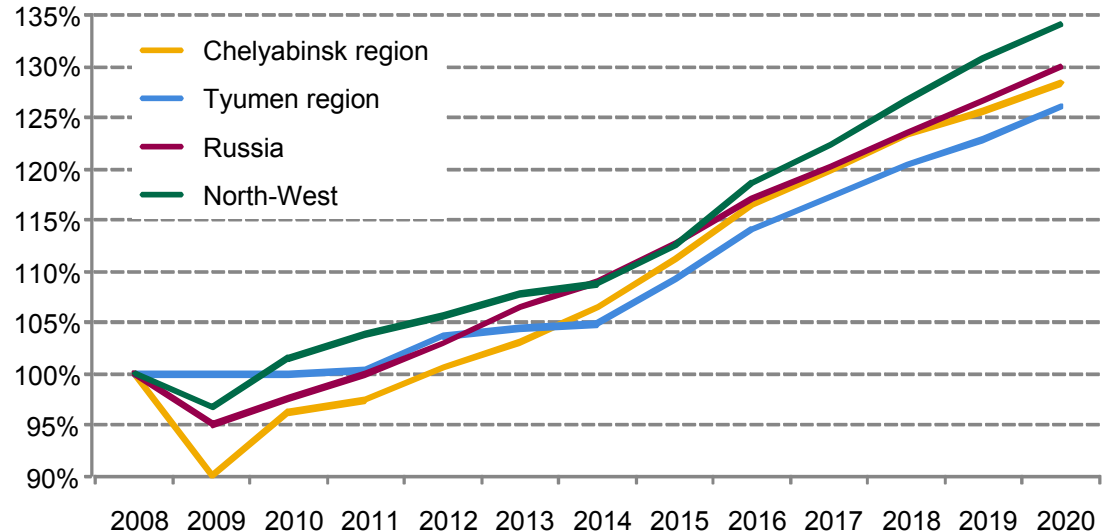
- Russian economy has recovered briskly due to appreciating commodity prices – notably oil and metals
- Growth driven by commodity exports and inventory cycle turning positive in Q2/2010 supporting manufacturing
- GDP expected to grow by 4-5% in 2010 and with slowly appreciating oil price expectations a 4% trend growth assumption is reasonable for the years to come
- Rule of thumb: electricity consumption and GDP correlate by ~1/3
- Russian electricity consumption expected to increase by 30-50% to 2020

Russian GDP expectations

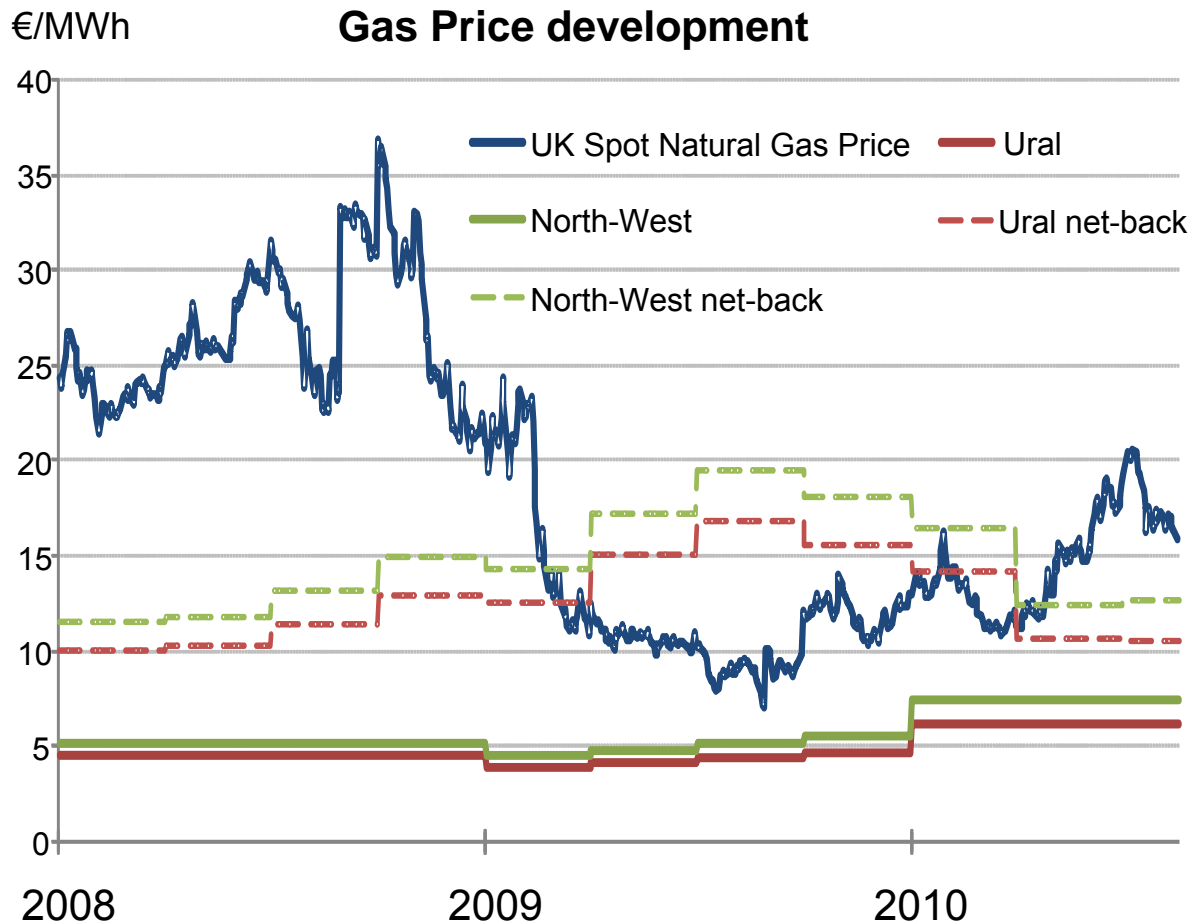


Source: IMF (April'10), MinEcon (June'10), Consensus Economics (August'10)

Electricity consumption expectations



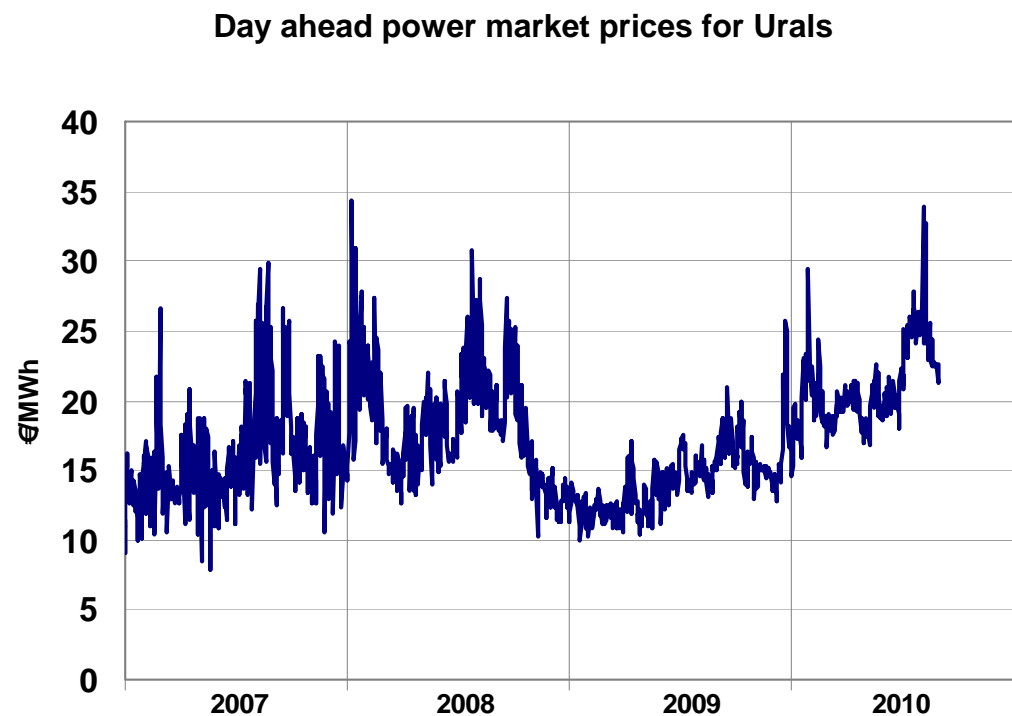
Russian gas prices follow regulated tariff decisions



- 95% of fuel used at Fortum power plants in Russia is gas
- Gas price and supply-demand balance are key drivers for the wholesale price of electricity
- The gas price is expected to increase 15% per annum during 2011-2013
- The “net-back” price targeted by 2014 is being discussed

Day ahead wholesale market prices heading up

- Demand back to pre-crisis levels in the overall Russia
- Regulated gas price was increased 24% in 2010 compared to the average in 2009
 - Expected to be unchanged for the rest of 2010
- H1/2010 spark spreads (Urals) above 2009 levels



Source: ATS. Average Rub/Euro Exchange rate in 2008 = 36.45, in 2009 = 44.20, in 2010 = 39.70

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Russian power sector reform on schedule

A Nordic/Western analogy

Unbundling of businesses by type of activity

Competitive businesses	Regulated monopolies
<ul style="list-style-type: none">▪ Generation▪ Sales	<ul style="list-style-type: none">▪ Transmission▪ Distribution

Market liberalisation in competitive businesses

Pricing model reform – from tariff regulation to competitive pricing

Key steps in the reform

- "Power industry law" approved
- Restructuring of regional energos (Power and Heat companies)
- Formation of new companies
- Establishment of Russian power exchange (ATS)
- Launch of the free-trade sector of the wholesale market
- Launch of balancing power market
- Capacity market (transitional model)
- Capacity market (target model)
- **Financial derivatives market launched 21st of June 2010**
- Competitive market of ancillary services
- Gradual liberalisation of the retail market

Power market liberalisation – two markets

Capacity market



Capacity price

- Capacity auctions (next in Oct 2010)
- A higher, fixed capacity price for new capacity (CSA* agreements, >2007)
- Likely a lower capacity price for old capacity

Day ahead (spot) wholesale market



Day ahead spot market price

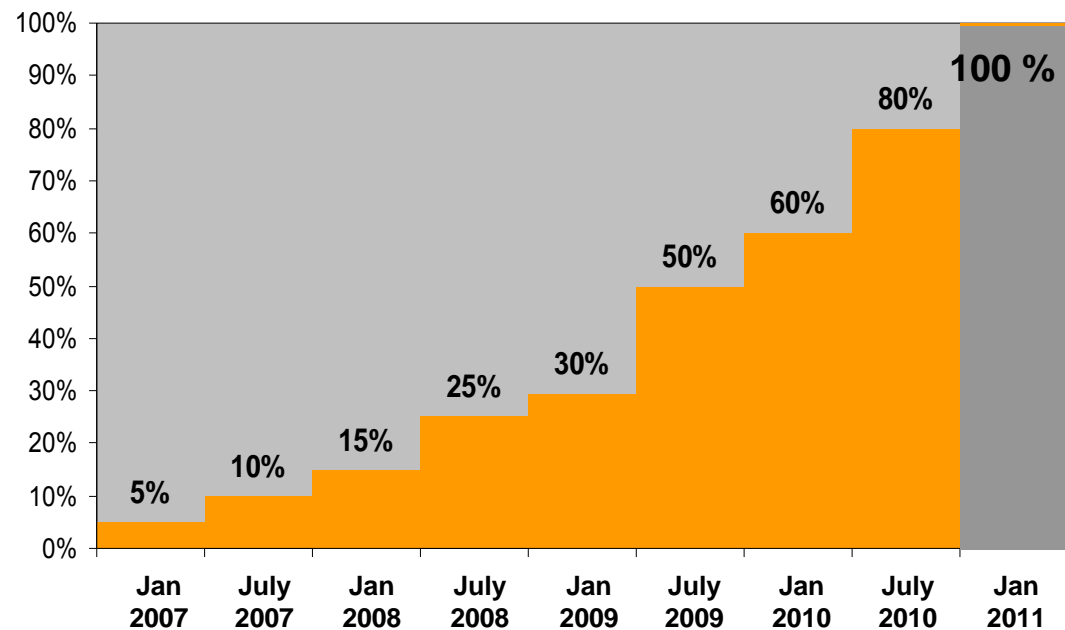
- Day ahead spot market auction
- 100% liberalised from 1 Jan 2011
- Supply-demand balance and fuel price the key drivers

- Capacity market is the intended mechanism for earning a (reasonable) return on invested capital
- Capacity prices are a big part of a power generator's income
 - a typical CHP plant ~35%, CCGT ~55%, of revenues
- In the day ahead (spot) market, the price mechanism is a day ahead hourly auction, variable costs (fuel) a key driver
- Financial market started in June, 2010

Day ahead wholesale power market 100% liberalised in four months

- Further liberalisation of wholesale power market
 - 100% by 1 January 2011
- The sales to households will remain regulated still after 2011
 - Below 10% of the overall volume

Share of liberalised trade for existing capacity



Capacity prices for new capacity 3-4 times the old capacity prices

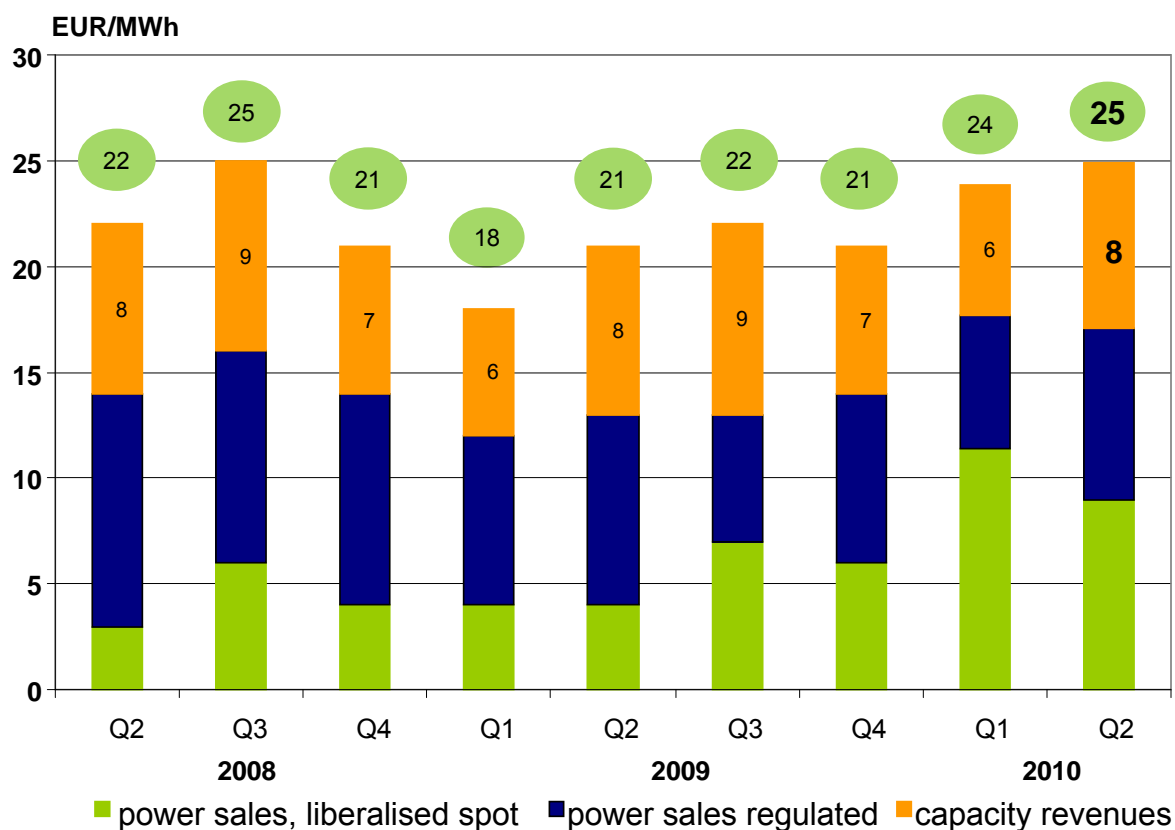
- Long term rules and price parameters approved
- Both “old” and “new” capacity can participate in capacity auctions
- Old capacity (pre 2007) and new capacity priced differently
 - Old capacity is priced by capacity auctions; first auction for 2011 in October 2010
 - New capacity under capacity supply agreements to receive guaranteed payments
- The payments for new capacity are based on approved pricing formulas
 - Vary according to plant size, fuel, geographic location, capital costs, ...
 - Allow the recovery of capital costs and include return on invested capital; the targeted ROCE level 12-14% (with current government benchmark bond yields)
 - After three years (2014), the regulator will review the earnings from the electricity-only market and can revise the payments, same goes after 6 years.

- “Old” capacity prices will depend on auction outcomes, but likely remain relatively low
- “New” capacity prices (under agreements) to be 3-4 times the “old” capacity prices

Capacity payments currently ~1/3 of total revenues for Fortum Russia

- Last twelve months revenues were almost equally split between three components
 - Liberalised power (spot) price
 - Regulated power price
 - Regulated capacity payments
- Regulated power sales not relevant post 2010
- Higher share of capacity payments from new capacity
 - First units available in 2011

Achieved total power price, Russia Division*



* Based on realised, disclosed power revenues and volumes; power and capacity prices

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Fortum – a major player in Russia

OAo Fortum (former TGC-10)

- Operates in the heart of Russia's oil and gas producing region, fleet mainly gas fired CHP capacity
- 16 TWh power generation, 26 TWh heat production in 2009; more than Fortum's Nordic heat sales
- Investment programme to add 85%, almost 2,400 MW to power generation capacity

TGC-1

- Slightly over 25% ownership of territorial generating company TGC-1 operating in north-west Russia, adjacent to Finnish boarder
- ~6,350 MW electricity production capacity (46% hydro), ~27 TWh/a electricity, ~31 TWh/a heat



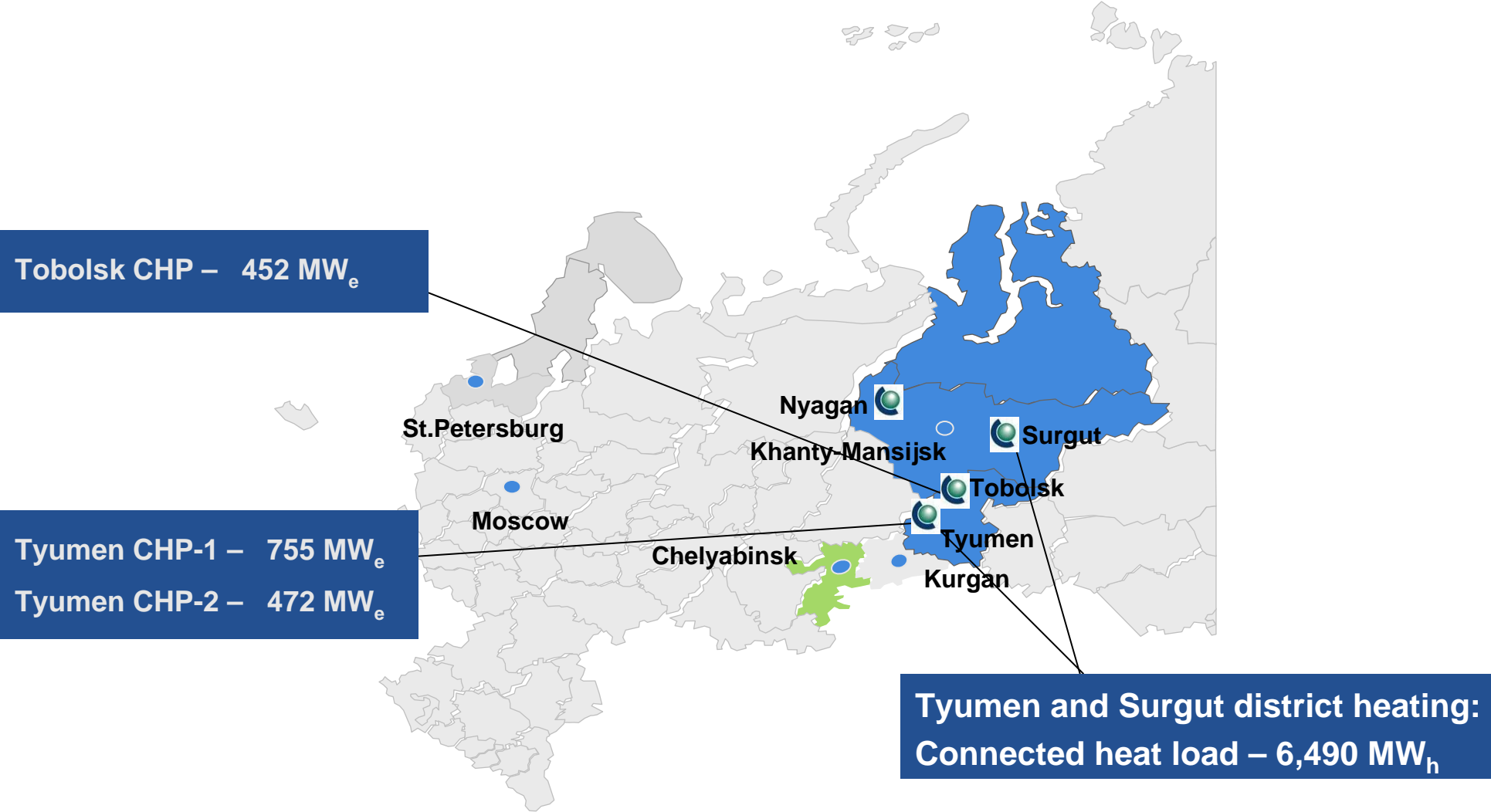
OAO Fortum assets in brief

- Fortum holding now is about 95%.
- 8 existing power plants, district heating in 3 cities
- Power generation capacity now 2,800 MW, to increase up to 5,100 MW
- Heat capacity 15,800 MW, main heat supplier in the area
- Sales about EUR 630 million in 2009
- EBITDA improved from EUR -25 million in 2008* to EUR 92 million in the last twelve months
- Personnel about 4,500

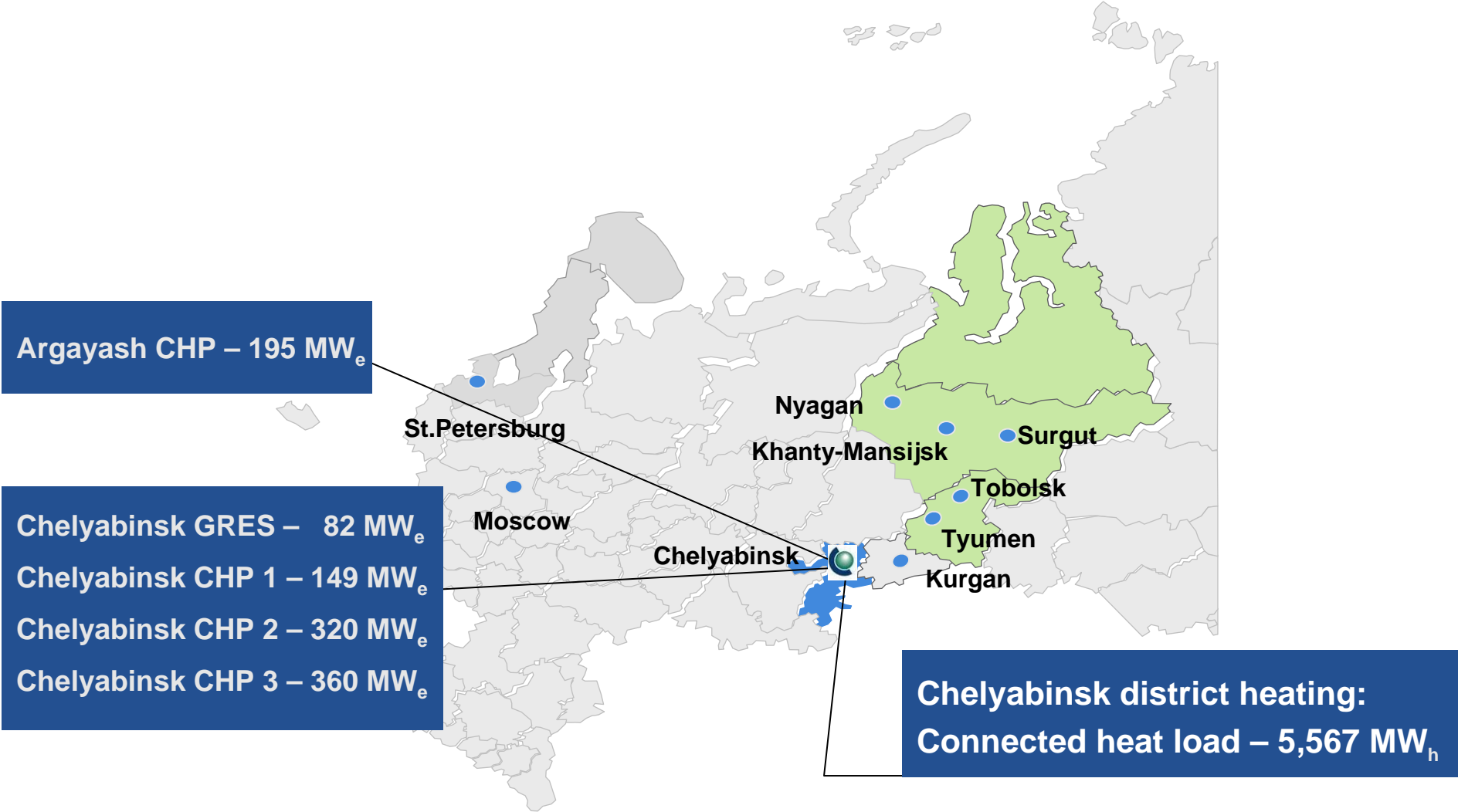


* 2008 consolidated from 1 April 2008; Q1/08 not included

Fortum in Western Siberia region



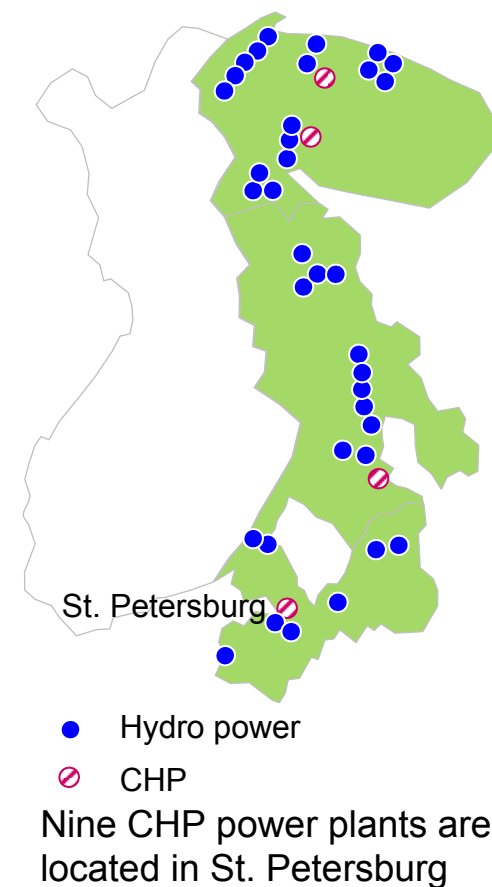
Fortum in Urals (Chelyabinsk) region



TGC-1 in brief

- Fortum's holding is now slightly over 25%
- TGC-1 generates electricity and supplies heat in St. Petersburg and north-west Russia
- Total electricity capacity 6,347 MW of which 46% is hydro power
- High share of hydro power makes TGC-1 unique among Russian territorial generating companies
- Production in 2009 26.7 TWh electricity and 31.3 TWh heat
- Sales¹⁾ about EUR 960 million (in 2009)
- EBITDA¹⁾ improved from EUR 60 million in 2008 to EUR180 million in 2009
- Personnel about 9,060

Power plant location



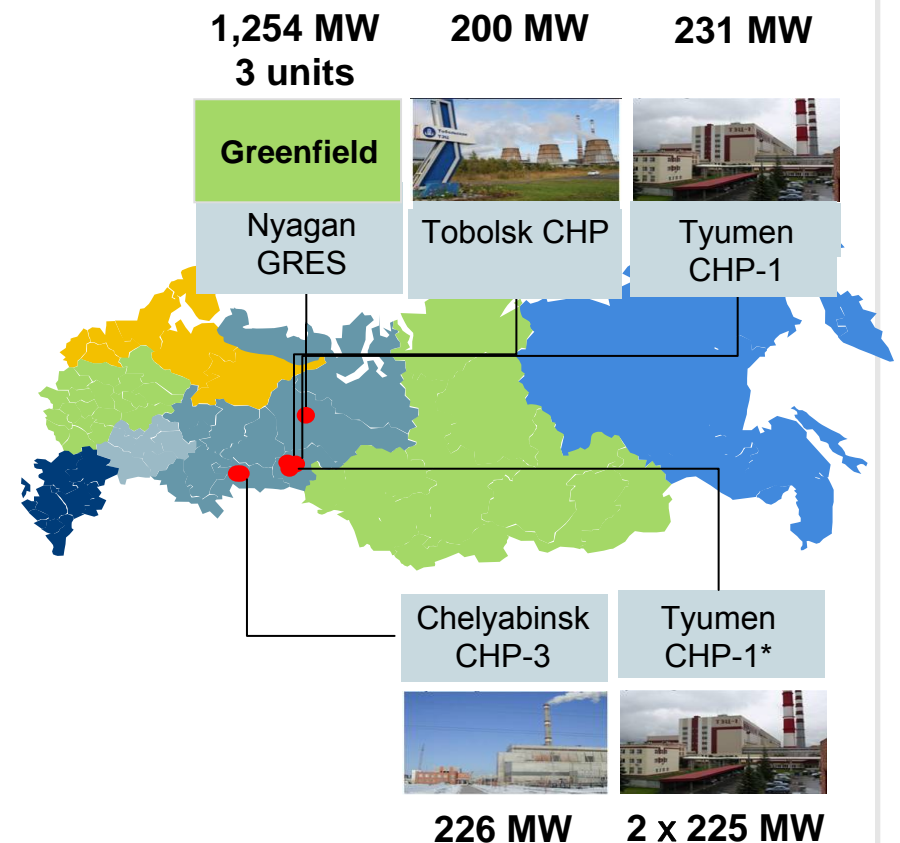
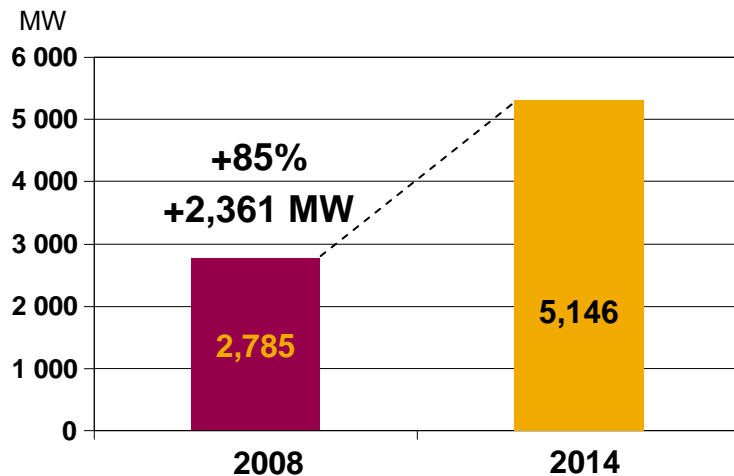
¹⁾ Based on IFRS figures; €/RUB = 43.154 (31.12.2009)

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OAO Fortum investment programme

- Total amount of investments EUR 2.5 billion
 - Of which EUR 1.7 billion still to be invested
- Increasing capacity by almost 85%
 - More than any other Russian generating company



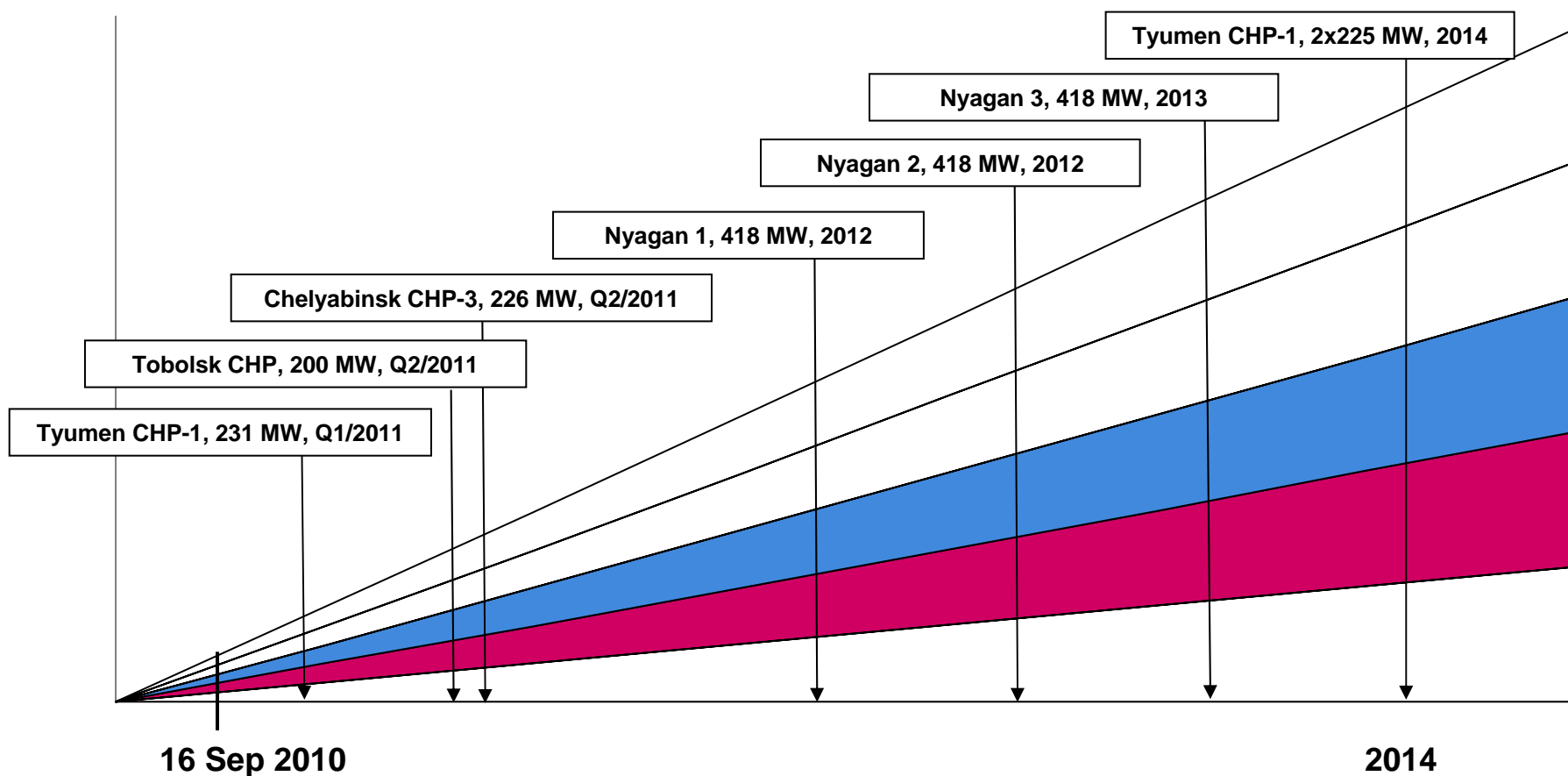
*Construction of power unit of 418 MW at Tyumen CHP-2 has been substituted by construction of two CCGT 225 MW each at Tyumen CHP-1

85% increase in power generation capacity by the end of 2014 through the investment programme

Power generation capacity (MW)

Plant	Supply date	Fuel type	Power generation capacity (MW)		Total
			Existing	Planned	
Tyumen CHP-2		Gas	755		755
Tyumen CHP-1	Q1/2011; 2014	Gas	472	231; 2*225 (CHP/Condensing)	1153
Tobolsk CHP	Q2/2011	Gas	452	200 (Condensing)	652
Chelyabinsk CHP-3	Q2/2011	Gas	360	226 (CHP/Condensing)	586
Chelyabinsk CHP-2		Gas, coal	320		320
Argayash CHP		Gas, coal	195		195
Chelyabinsk CHP-1		Gas, coal	149		149
Chelyabinsk GRES		Gas	82		82
Nyagan GRES	2012, 2012, 2013	Gas		3x418 (Condensing)	1,254
Boilers		-			
Total			2,785	2,361	5,146

Availability of new capacity a key driver for earnings



Nyagan green field (3 units x 418 MW)



Main building

- Work on equipment manufacture ongoing
- Start-up boiler house and main building being erected
- Scheduled to be commissioned in 2012/2013

- The biggest green field project in the modern Russian power and heat industry (with the exception of nuclear)
- State-of-the-art technologies with high production and environmental efficiency



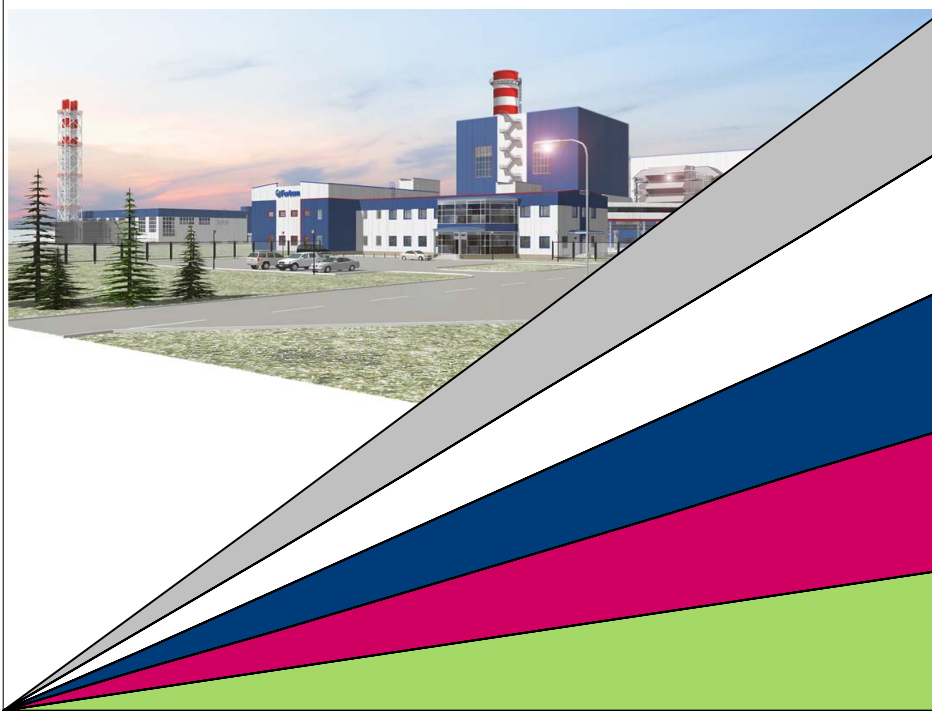
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Efficiency improvement programme in Russia: ~100 M€ EBITDA improvement in 2011

- Purchasing
- Portfolio Management and Trading (PMT)
- Heat regulation
- Heat - technical and business improvements
- Generation - technical improvements
- Others

Key factors behind the profitability improvement



Efficiency improvement programme

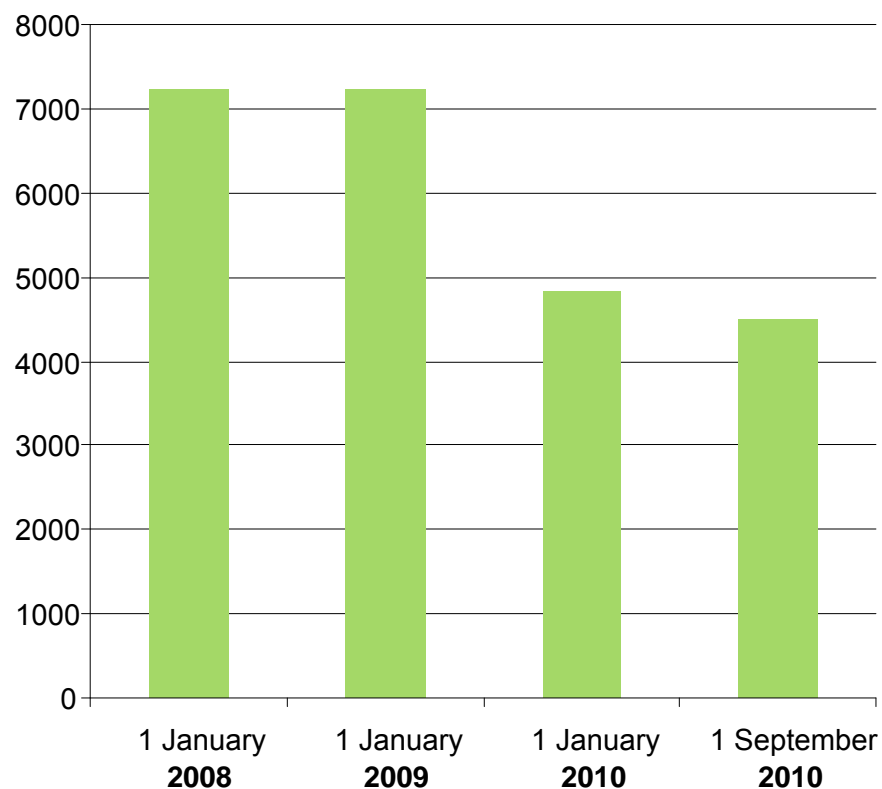
- Increasing heat production profitability
- Fuel efficiency improvement
- Savings in purchasing process

New capacity commissioning

- Additional capacity 2,360 MW
- Capacity is sold at CSA* contracts with guaranteed higher price

Determined steps to gain efficiencies

Number of employees, Fortum Russia



- Fortum has taken deliberate steps to improve efficiency
- The reduction in full time employees (FTEs) since the end of 2008 is
 - ≈ 1,100 FTEs in OAO Fortum (power and heat generation)
 - ≈ 1,400 FTEs in the heat operations in Russia; 750 of which due to termination of O&M agreement with Tyumen in July 2009
 - ≈ 200 FTEs in the Service operations in Russia

Key messages

- Electricity demand in Russia is back on pre-crisis level
- Russian power sector reform has progressed on schedule
 - Wholesale power market to be fully liberal from 1 Jan 2011
- New generation capacity will receive 3-4 times the old capacity prices
- Fortum's power generation capacity will increase by 85% through the ongoing investment programme
 - Progressing with accelerated schedule
- Earnings improvement targeted also through the efficiency improvement programme

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