

FORTUM  
**Capital**  
Markets  
**Day/10**

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**2010/09/16**

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JUHA  
**Laaksonen**

**f** FORTUM'S  
**financials**

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**2010/09/16**

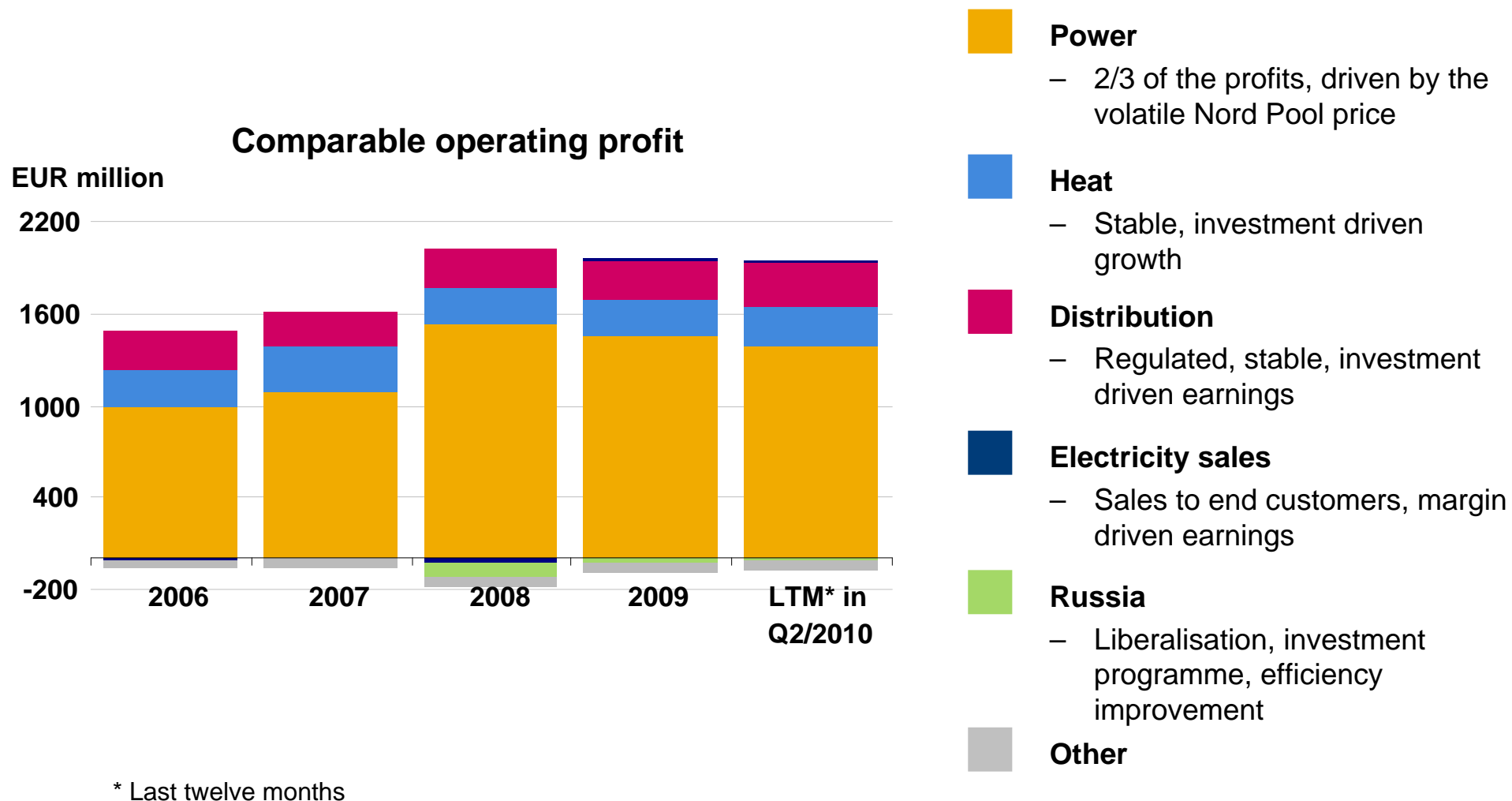
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# Agenda

- The key drivers of Fortum's operating profit
- Capital expenditure
- Financing position, capital structure and dividends

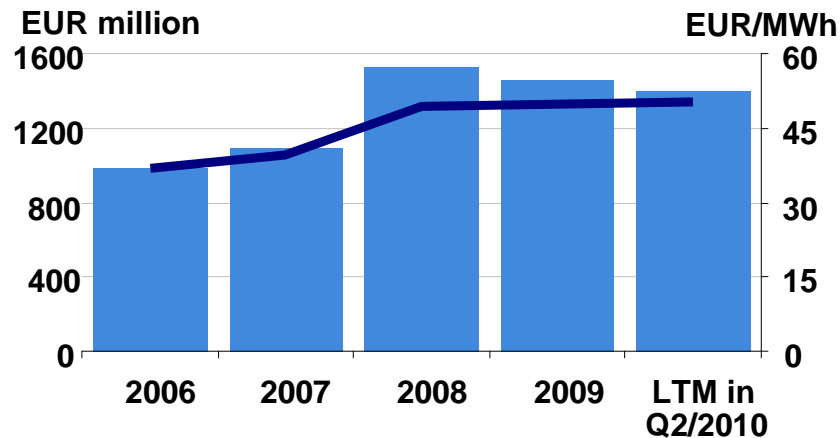


# Fortum's operating profit is (still) driven by Power

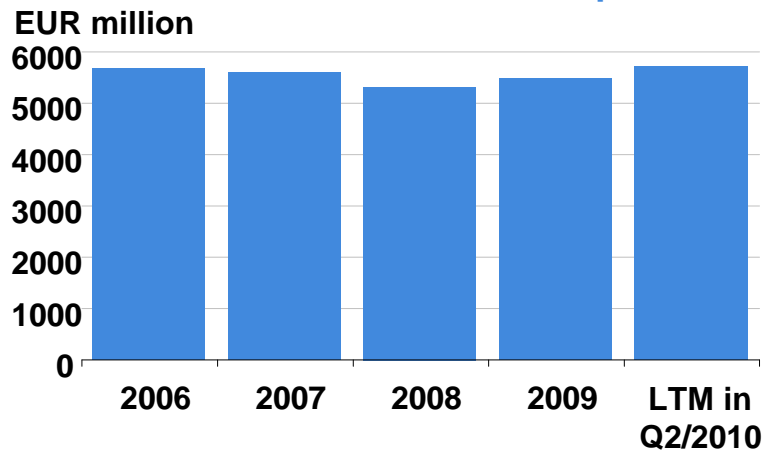


# Power – achieved power price, mix

## Comparable operating profit



## Net assets at the end of the period



- **Achieved price**

- A change of EUR 1 in achieved power price equals ~EUR 50 million in comparable operating profit
- Volatility of the Nord Pool prices; stability through hedging

- **Production mix**

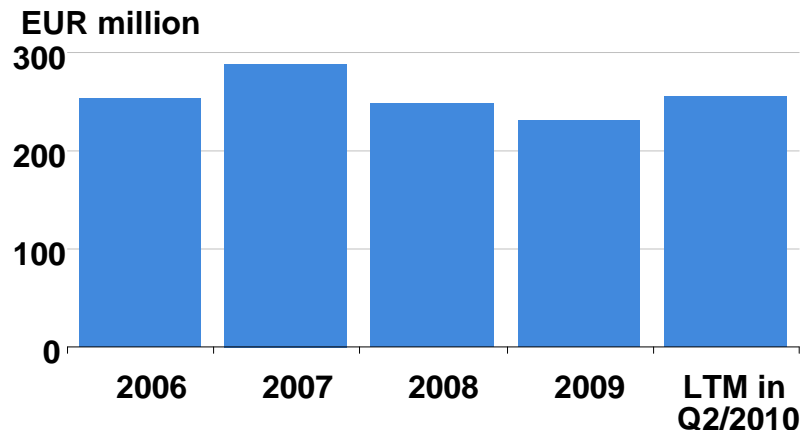
- variation in hydro volumes
- availability of nuclear

- **Mainly fixed cost base**

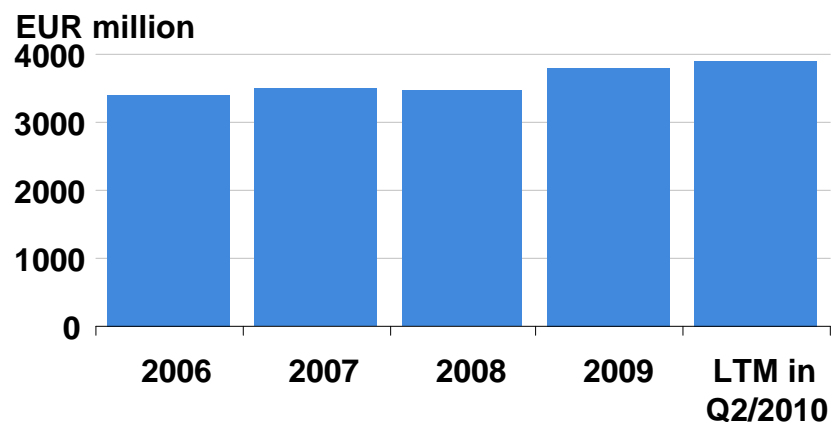
- hydro and nuclear appr. 90 % of the production

# Heat – stable, investment driven growth

## Comparable operating profit



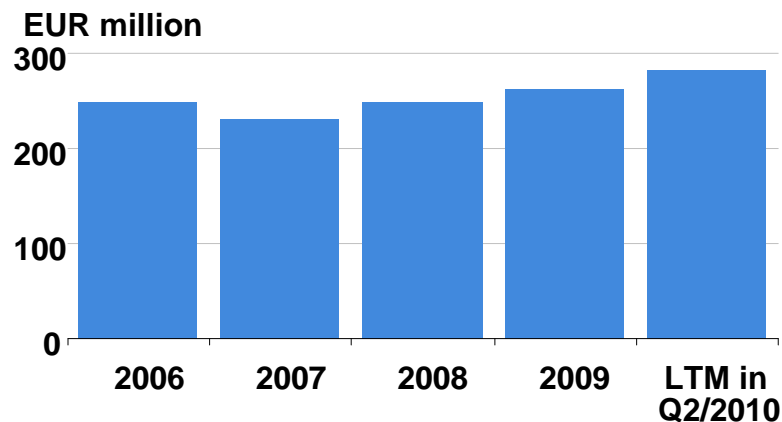
## Net assets at the end of the period



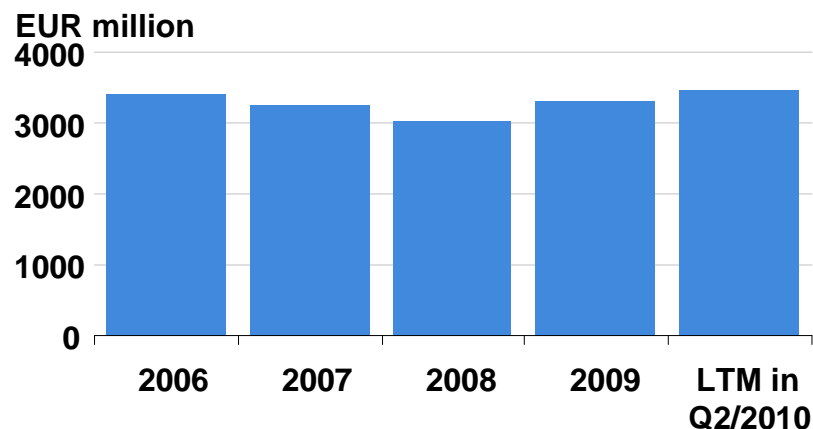
- **Stable earnings**
  - Not a regulated business in Nordic countries
- **Low volatility in pricing**
  - Fuel price variation passed on to customers with some lag
- **Fuel management and optimisation**
  - Heat demand (“heat load”), mainly driven by temperature
- **Recent investments into new CHP plants to bear fruit**
  - Gradually increasing share of electricity in the CHP fleet

# Distribution – regulated, stable earnings

## Comparable operating profit



## Net assets at the end of the period



- **Regulated, stable returns**

- Regulation varies by country, increasingly RAB based
- Investments and cost efficiency incentivised by the regulation

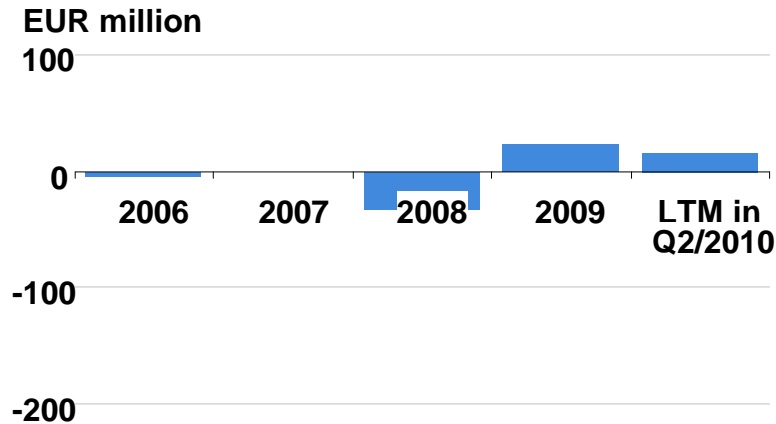
- Volumes somewhat affected by demand variation

- Returns less so, due to regulation

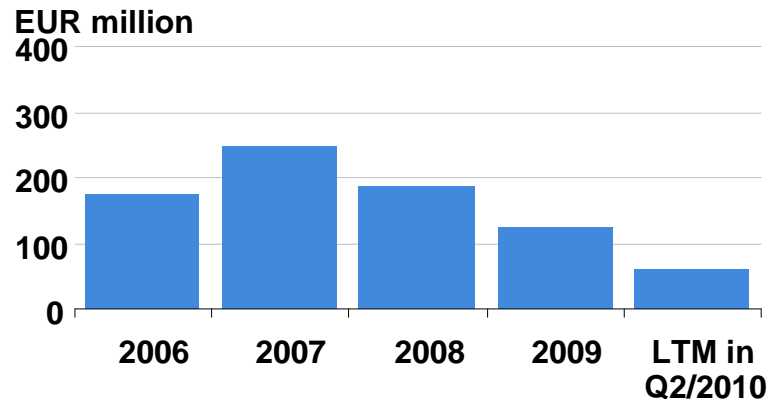
- Winter storms can lead to minor one-off losses

# Electricity Sales – competitive, low margins

## Comparable operating profit



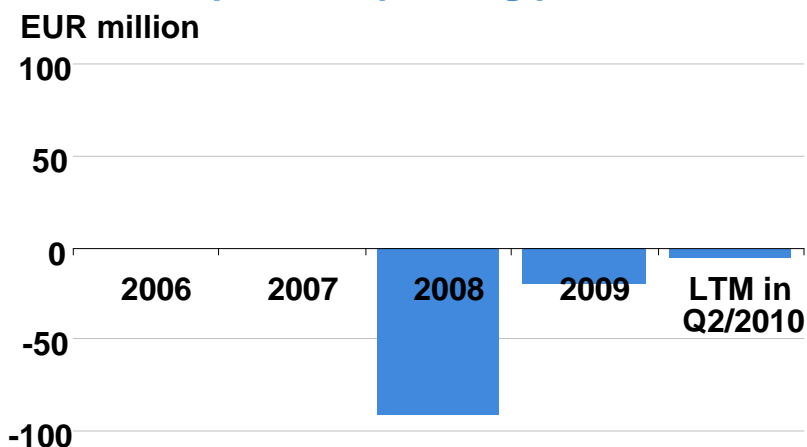
## Net assets at the end of the period



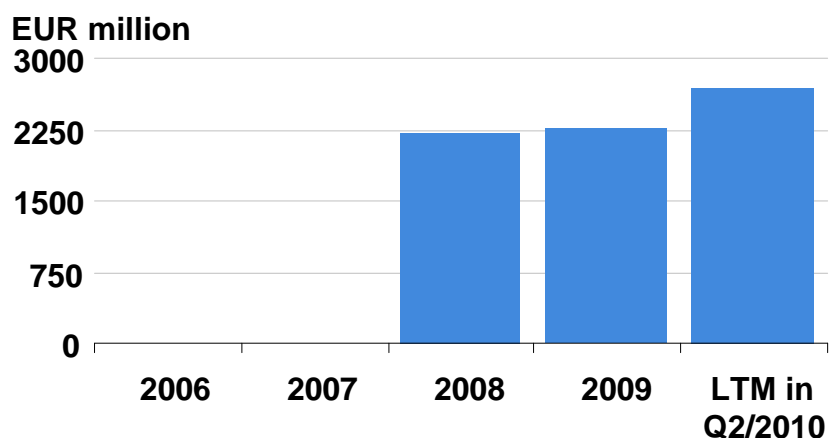
- Highly competitive
  - Low margins, also in future
- Low capital intensity
  - Potentially high returns on capital
- Purchasing from Nord Pool
  - Purchase prices vary more than end user contract prices
  - Targeting back-to-back hedging essential but difficult
- High visibility in public discussion
  - Less importance as an earnings driver

# Russia – long term potential

## Comparable operating profit\*



## Net assets at the end of the period

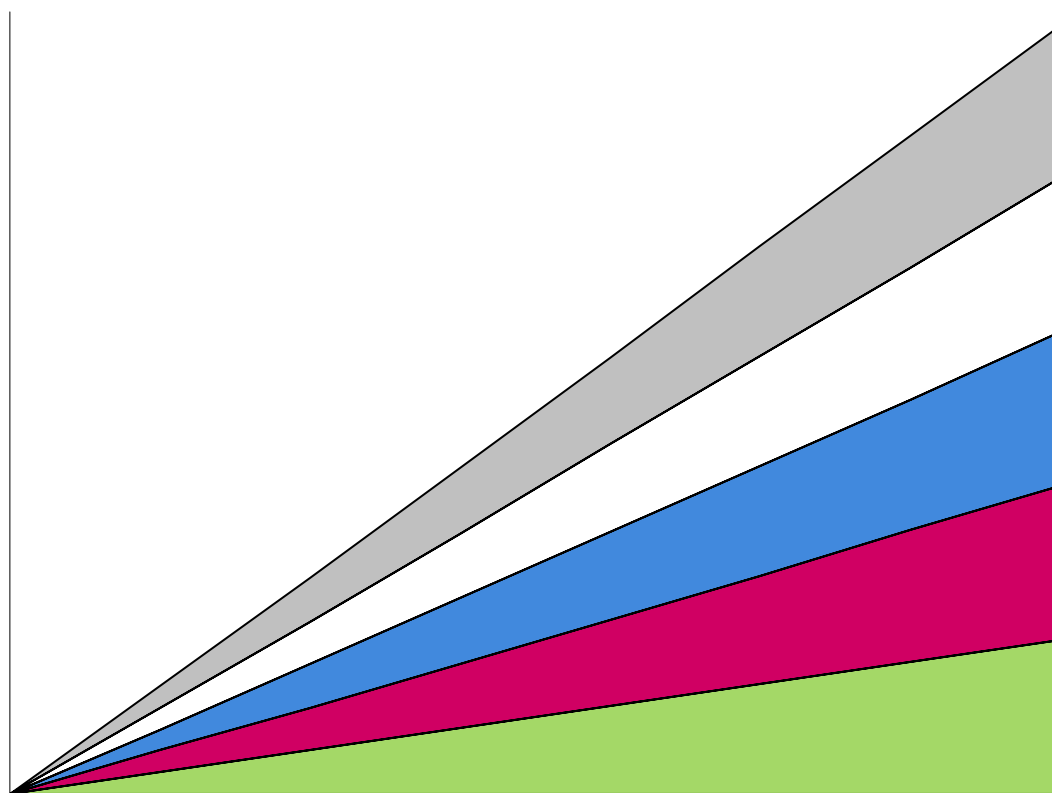


- Efficiency improvement programme
- Increased income from new capacity
  - Starting from early 2011
  - New capacity to receive 3-4x higher price than old capacity, offering 12-14% ROCE\*\* over 10 years
- Increased income from new volume sold
- Potential margin increase
  - Spark spread in the day-ahead spot market
  - Relatively lower fuel transportation costs
- Development of heat business
  - Regulation to incentivise needed investments

\*P&L consolidated from Q2/2008 onwards

\*\* With current Russian government benchmark bond yields

# The five key drivers for earnings improvement in Russia



Development of Heat business

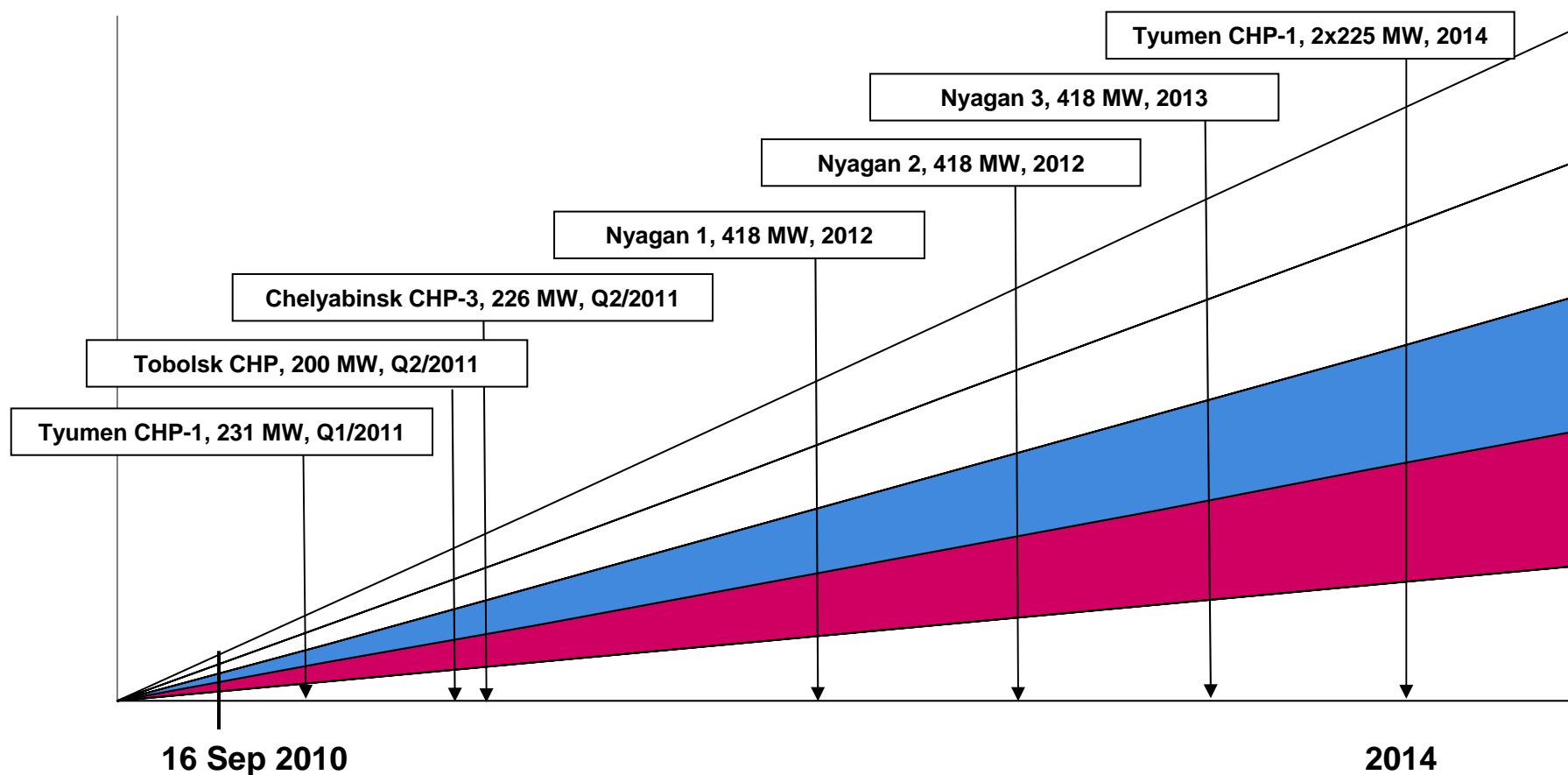
Potential margin increase  
(power price vs. gas price)

Increased income  
from new volume sold

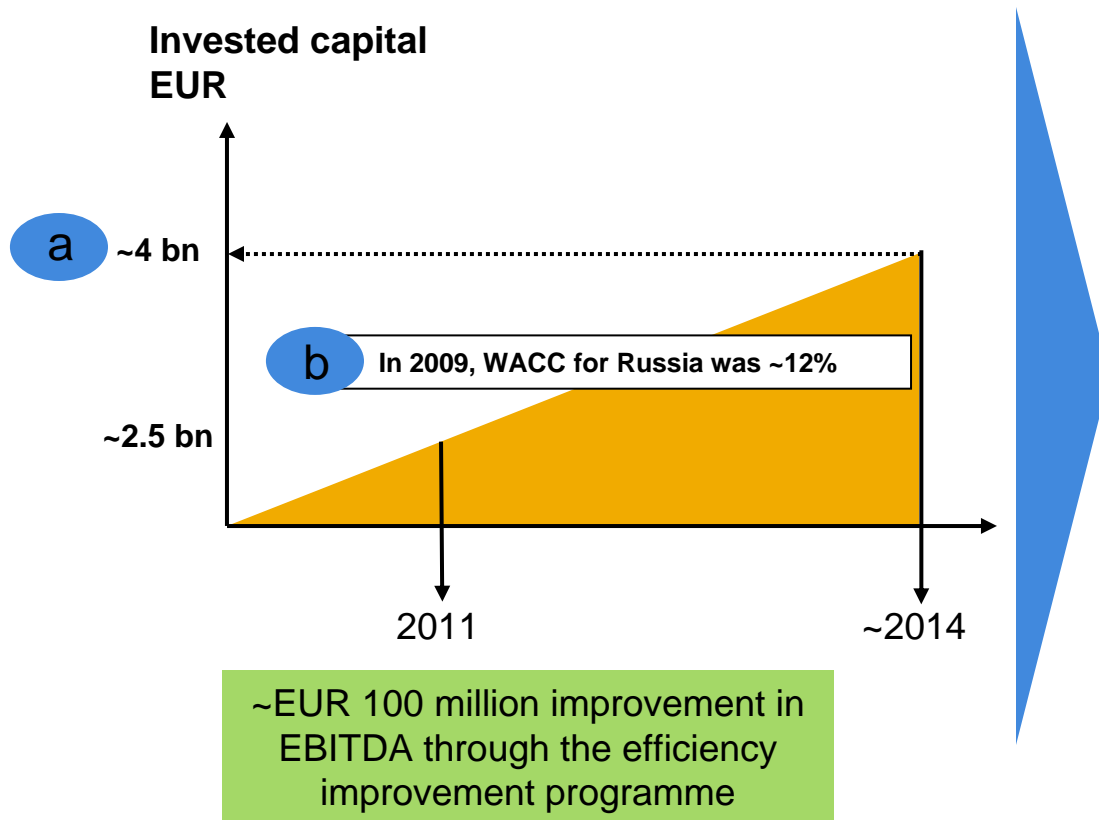
Increased income from new capacity  
(higher payments for new capacity)

Efficiency improvement programme

# Above all, availability of new capacity will drive profits



# Long-term financial target will be dictated by basic economic logic



Assuming, having completed the investment programme, an invested capital of a

... and an unchanged cost of capital b

The annual comparable operating profit in Russia needs to be in excess of ~EUR 500 million in order to beat to cost of capital (WACC) ...soon after the completion of the investment programme

## Fortum's financial targets

<b>Return on capital employed</b>	<b>12%</b>
<b>Return on shareholder's equity</b>	<b>14%</b>
<b>Net debt/EBITDA</b>	<b>~3</b>

## Taxation – Finland and Sweden

- Windfall tax removed from the Government agenda in Finland
- Proposed fuel tax increases in Finland apply only to heat production - according to EU legislation fuels for electricity production not to be taxed
  - The increase would likely not materially impact margins in Heat but would potentially lead to higher district heating prices
- Sweden has decided to increase the property tax of hydropower plants to 2.8% as of 2011
  - Additional cost for Power in 2011 EUR ~15 million
- Nuclear capacity taxation is a significant cost driver in Sweden
  - No change in nuclear capacity tax proposed
  - Around 5-7 EUR/MWh assuming normal capacity utilisation

- The key drivers of Fortum's operating profit
- Capital expenditure
- Financing position, capital structure and dividends

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# Laaksonen

## FORTUM'S financials

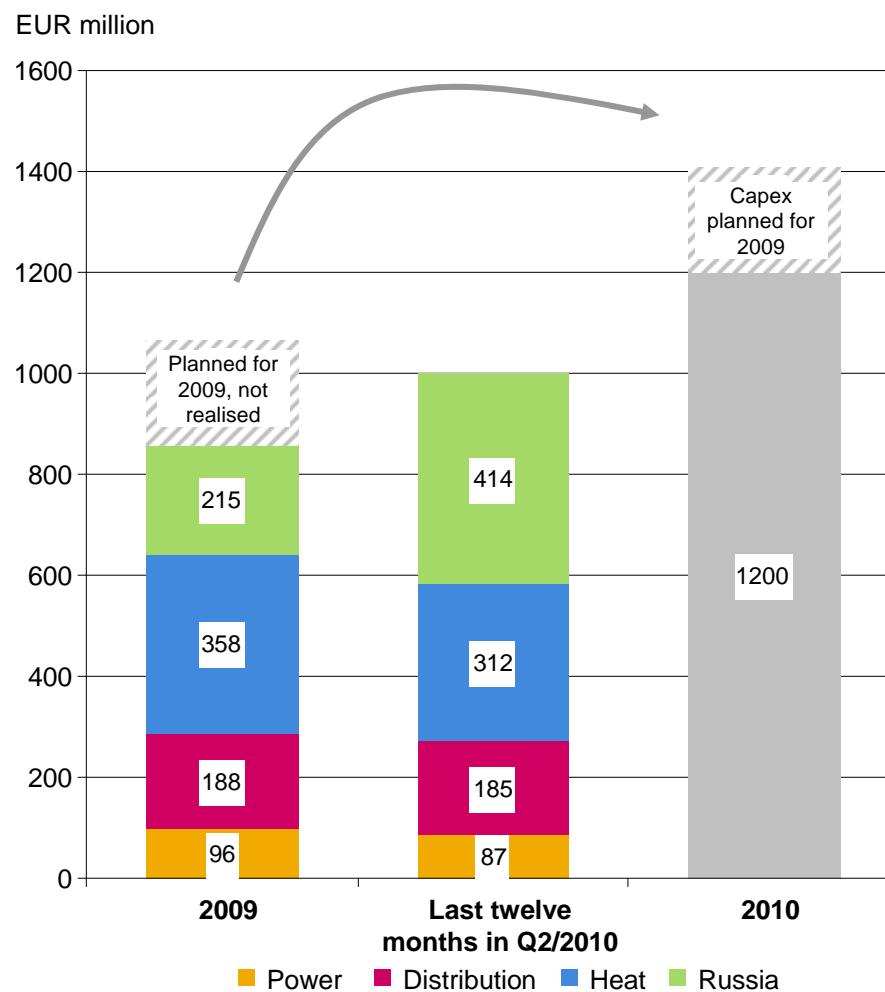
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### 2010/09/16

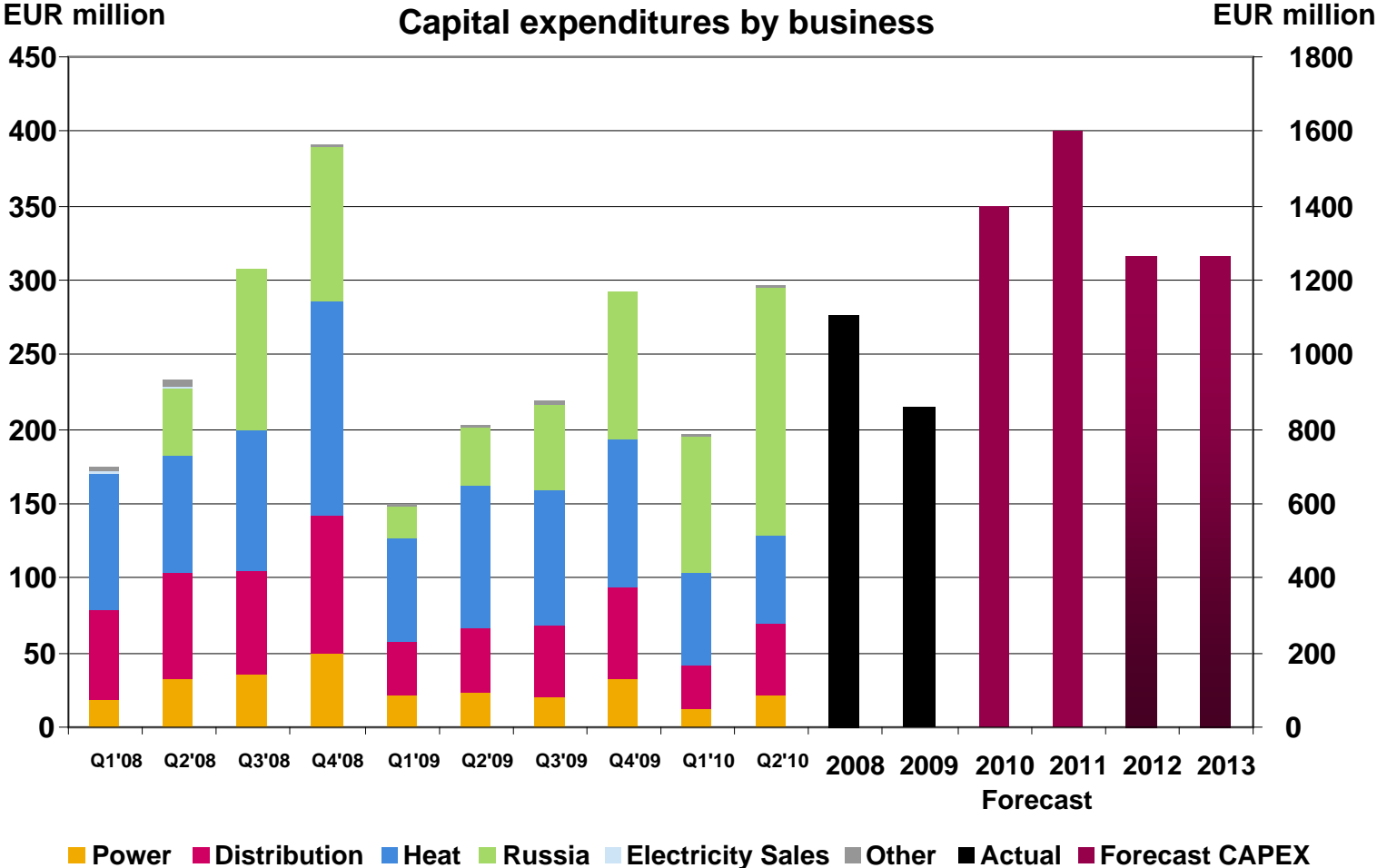
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## Capital expenditures lifted by Russia...

- 2009 capex EUR 862 million
- 2010 capex is expected to be around EUR 1.4 billion
  - shifting from 2009
  - driven mainly by Russian investments
- 2011 capex currently estimated at EUR ~1.6 billion
- 2012-2013 capex expected to be above the upper end of “normal” EUR 0.8-1.2 billion range



...also in medium term future, 2011-2013



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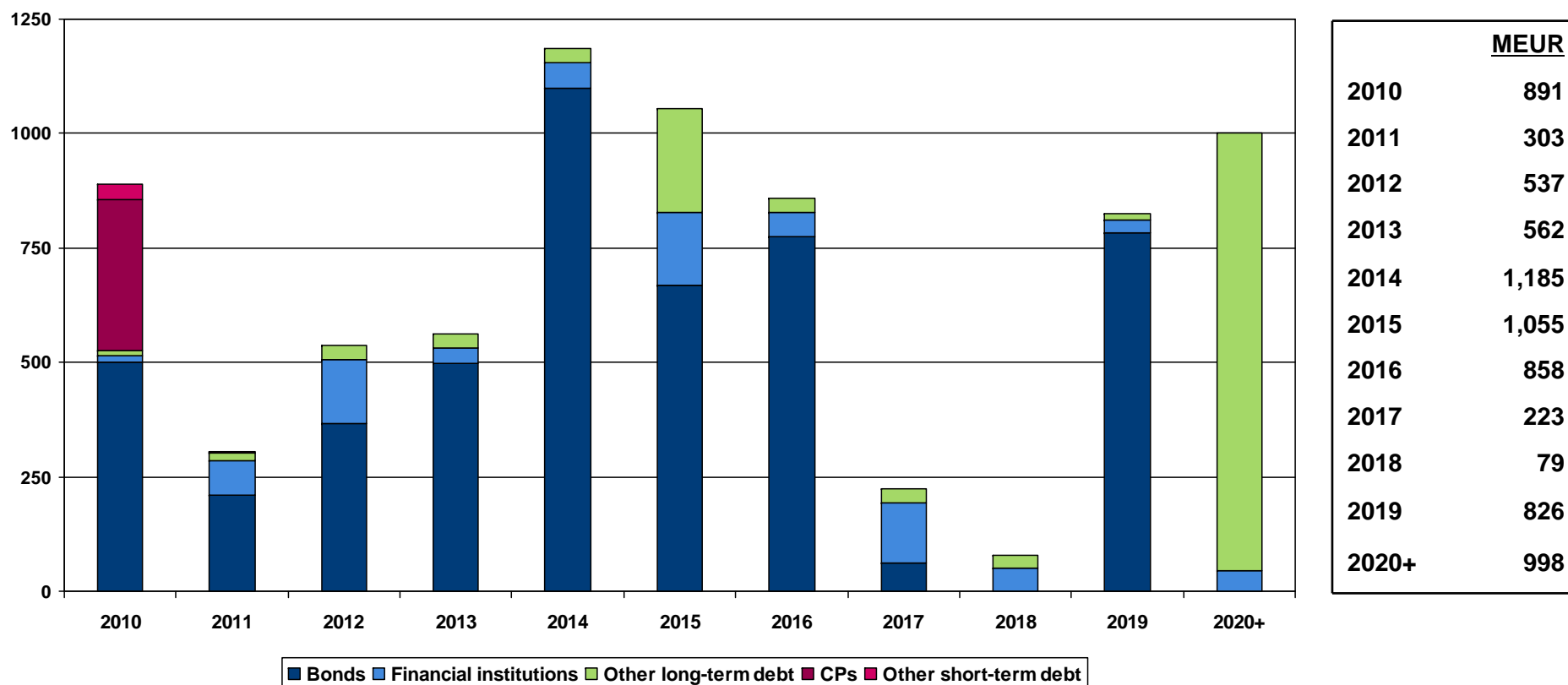
## FORTUM'S financials

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### 2010/09/16

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# Debt maturity profile – refinancing needs in 2014



Duration (years)

Average interest rate (incl. swaps and forwards)

Portion of floating / fixed debt

*per 30 June, 2010*

*per 31 December, 2009*

1.7

1.8

3.1 %

3.4 %

68 / 32 %

62 / 38 %

Note: Situation as end of Q2/10, maturity profile adjusted with the SEK 6,2 bn EMTN issue announced on 6th September, 2010 and prepayment of EUR 350m Term Loan.

# Very strong liquidity

EUR million	Available	Outstanding	Total amount
<b><u>SHORT TERM FINANCING</u></b>			
<b>Commercial Paper Programmes (CPP)</b>			
<i>Finnish CPP</i>	431	69	500
<i>SEK 5.000 million Swedish CPP</i>	261	264	525
	<b>693</b>	<b>332</b>	<b>1 025</b>
<b><u>LIQUID FUNDS AND COMMITTED CREDIT LINES</u></b>			
<b>Committed credit lines</b>			
<i>Short term</i>	215	0	215
<i>Long term</i>	2 700	0	2 700
	<b>2 915</b>	<b>0</b>	<b>2 915</b>
<b>Liquid Funds</b>			
<i>Cash and cash equivalents</i>	617		
<i>Bank deposits over 3 months</i>	394		
	<b>1 011</b>		
<i>of which in Russia</i>	479		
<b>Total available cash and committed financing</b>	<b>3 926</b>		

As of end of Q2/10, adjusted with the SEK 6.2bn EMTN issue announced on 6 September and prepayment of EUR 350m Term Loan

# Outstanding bonds under EUR 6 billion EMTN programme

<b>Curr.</b>	<b>Amount</b>	<b>In EUR 6.9.2010</b>	<b>Int. Rate</b>	<b>Maturity</b>
EUR	500 000 000	500 000 000	4,625%	19.11.2010
EUR	500 000 000	500 000 000	5,000%	19.01.2013
EUR	750 000 000	750 000 000	4,500%	20.06.2016
EUR	750 000 000	750 000 000	4,625%	20.03.2014
EUR	750 000 000	750 000 000	6,000%	20.03.2019
<b>EUR</b>	<b>3 250 000 000</b>	<b>3 250 000 000</b>		
SEK	2 000 000 000	215 023 706	3,750%	06.04.2011
SEK	3 500 000 000	376 291 486	3M Stibor+0,15%	21.05.2012
SEK	2 600 000 000	279 530 818	4,700%	21.05.2014
SEK	3 100 000 000	333 286 745	3M Stibor + 0,95%	14.09.2015
SEK	3 100 000 000	333 286 745	3,125%	14.09.2015
<b>SEK</b>	<b>14 300 000 000</b>	<b>1 537 419 500</b>		
NOK	500 000 000	63 451 777	5,250%	22.05.2014
NOK	500 000 000	63 451 777	6,125%	22.05.2017
<b>NOK</b>	<b>1 000 000 000</b>	<b>126 903 554</b>		

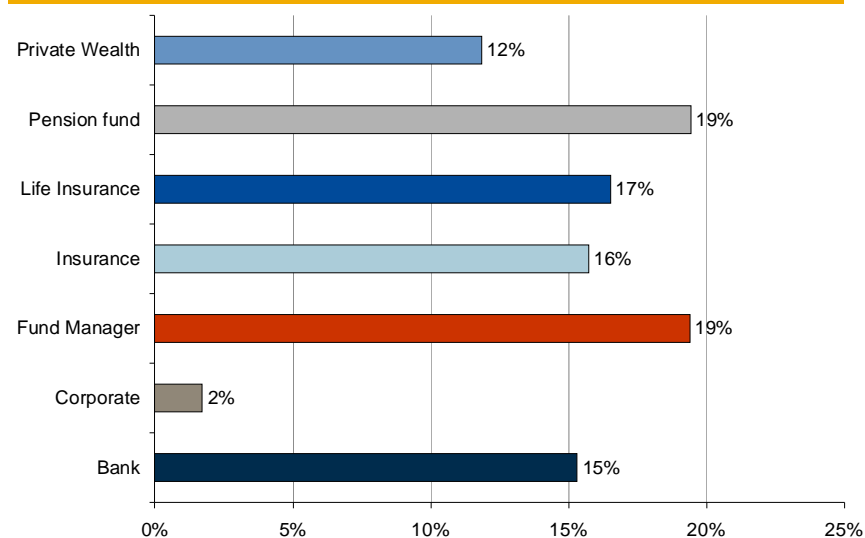
# SEK 6.2 billion<sup>1</sup> issued under the EMTN programme

– the largest corporate bond transaction ever in the Swedish Krona market

## Summary of terms

Issuer	Fortum Oyj
Tranches	FIXED SEK 3,100 million FRN SEK 3,100 million
Maturity	5 years
Coupon FIXED	3,125%
Coupon FRN	3M Stibor + 95 bps
Spread to m/s	+95
Listing	Luxemburg
Bookrunners	Svenska Handelsbanken Danske SEB

## Distribution of order book (~50 investors, mainly Swedish)

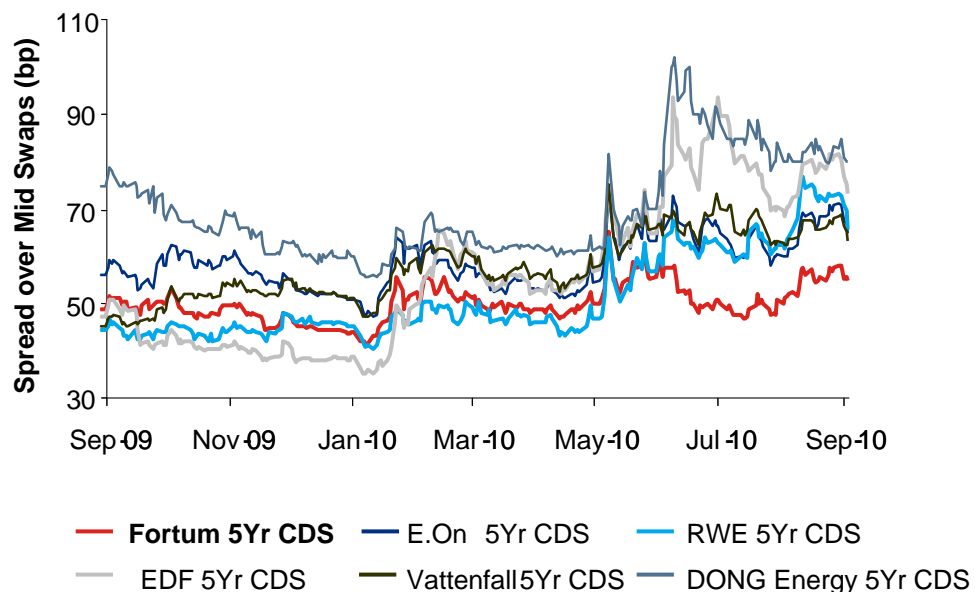


Proceeds will be used for refinancing of the Group's existing business activities in Sweden

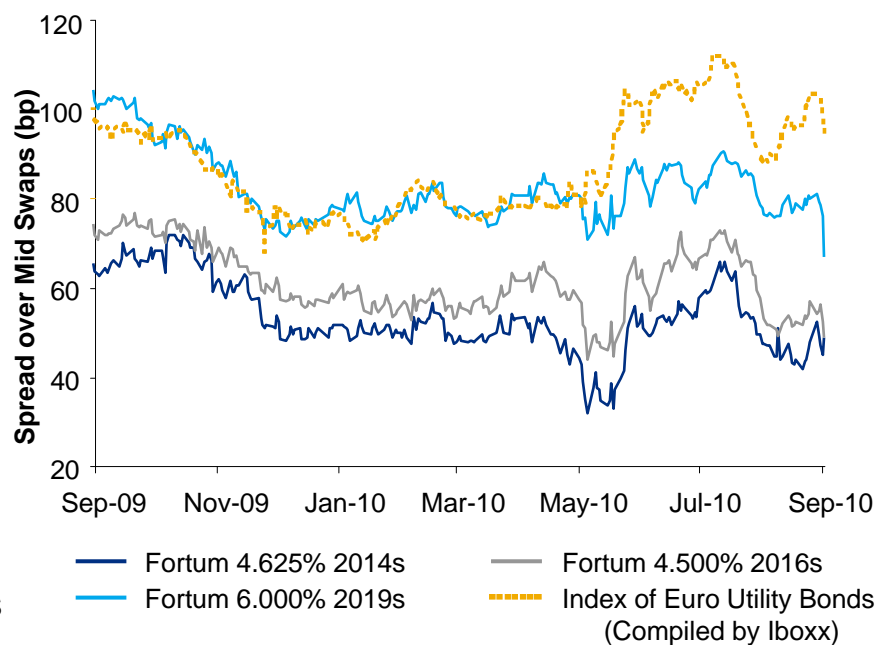
<sup>1</sup> Approx. EUR 666 million

# Fortum is trading tighter than utilities on average

Fortum CDS performance compared to low beta peers

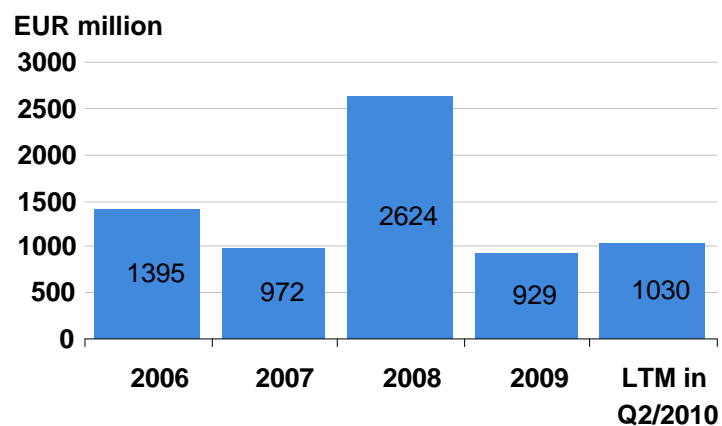


Fortum bond performance compared to IBoxx Utility Index

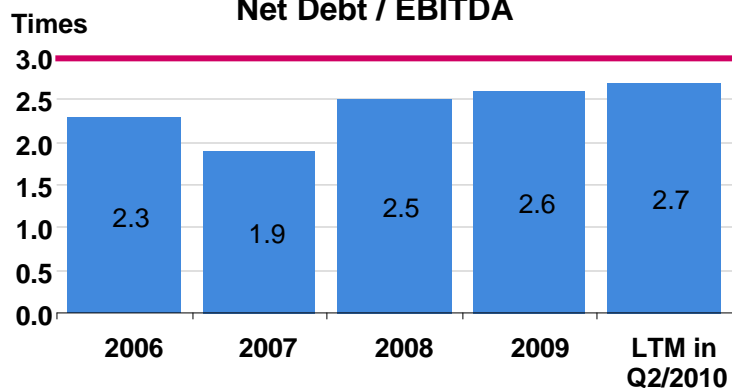


# Strong balance sheet, flexibility in the capital structure to be maintained

Capex and gross investments in shares

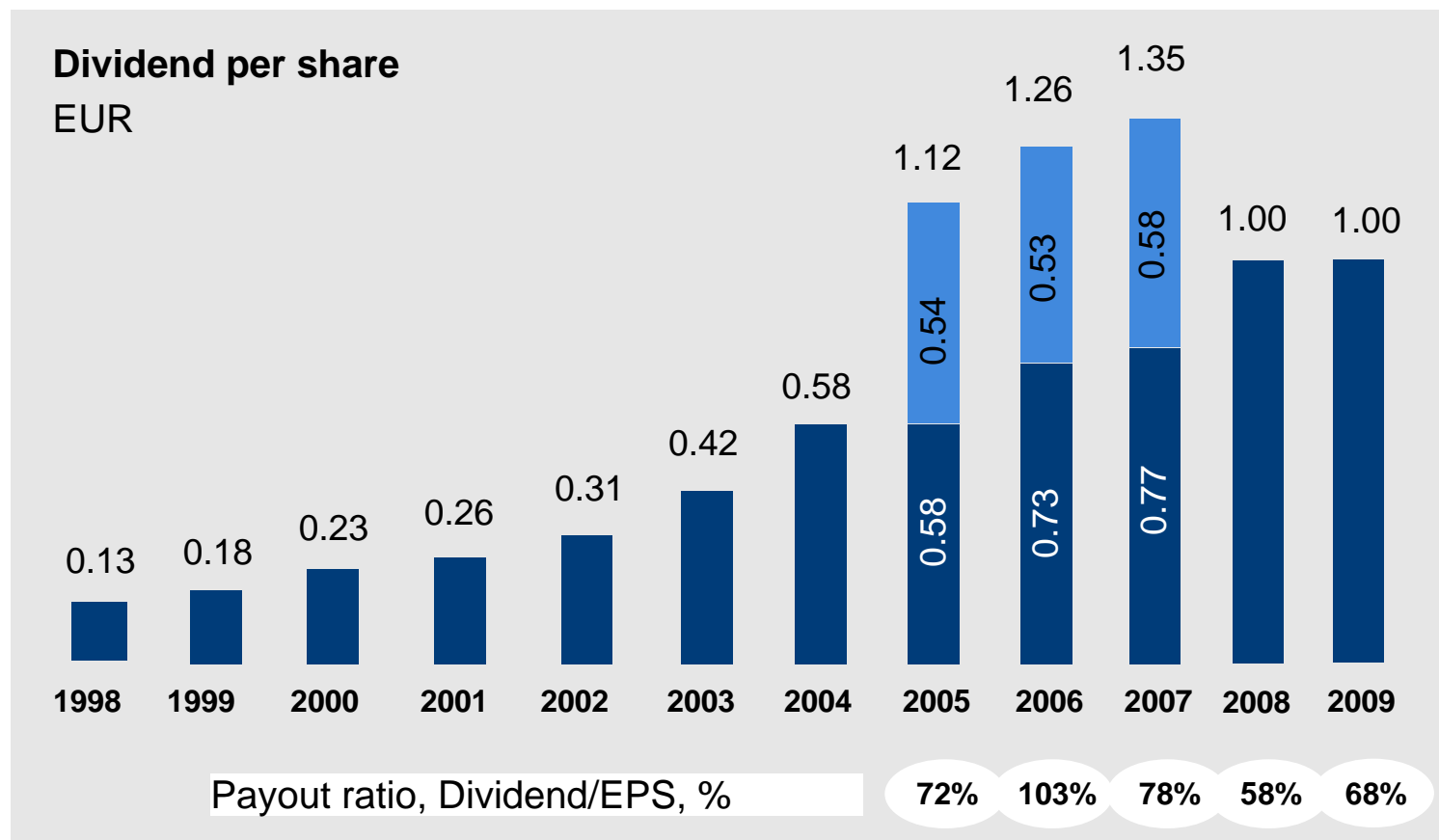


Net Debt / EBITDA



- Investments are expected to realise above recent history in 2010-2013
  - Accelerated capital expenditure in Russia...
  - ...but also Russian EBITDA largely determined by the availability of new capacity
- Strong balance sheet and the flexibility of the capital structure to be maintained
  - Net debt/EBITDA target ~3x

## Dividend – not a residual



Dividend policy of 50-60% payout of previous year's results on the average

## Key CFO messages

- (Nordic) Power and its achieved price still the main driver for earnings
  - The importance of hedging and trading competence
- Russia has great potential
  - EUR 100 million improvement in EBITDA in 2011
  - The availability of new capacity a key driver to earnings
  - Long term, post the completion of investment programme, financial target will be dictated by basic economic logic
- Capital expenditures lifted by the acceleration in Russia
  - Above “normal” range of EUR 0.8-1.2 billion in 2010-2013
- Strong balance sheet and flexibility of the capital structure are to be maintained
  - Net debt/EBITDA target of ~3x
- Dividend not a residual

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