

# FORTUM

A leading power and heat company  
in the Nordic area

Investor/Analyst material

September 2010

# Disclaimer

This presentation does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any Fortum shares.

Past performance is no guide to future performance, and persons needing advice should consult an independent financial adviser.



# Content

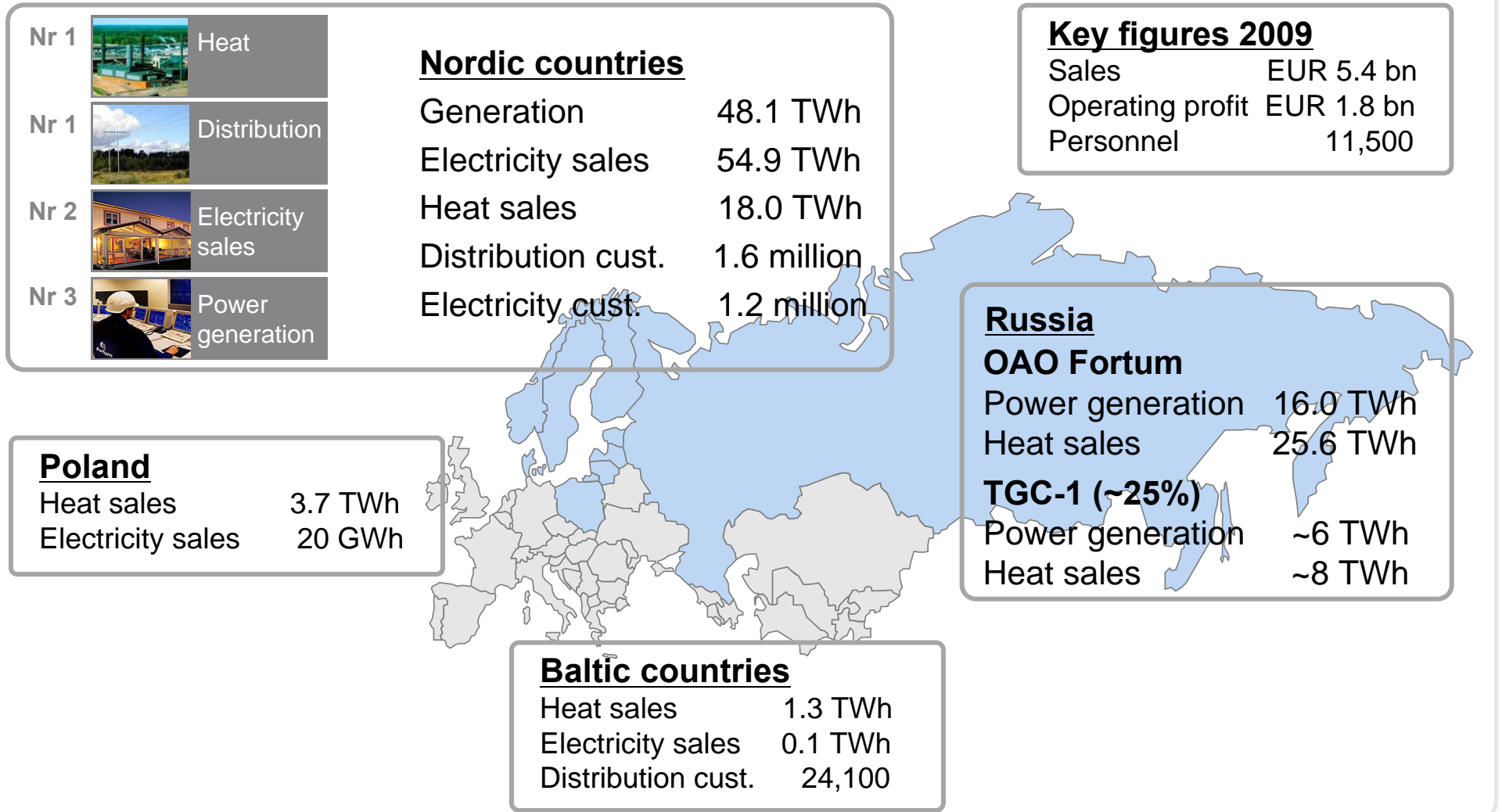
Fortum today

European power markets

Russia

Financials and outlook

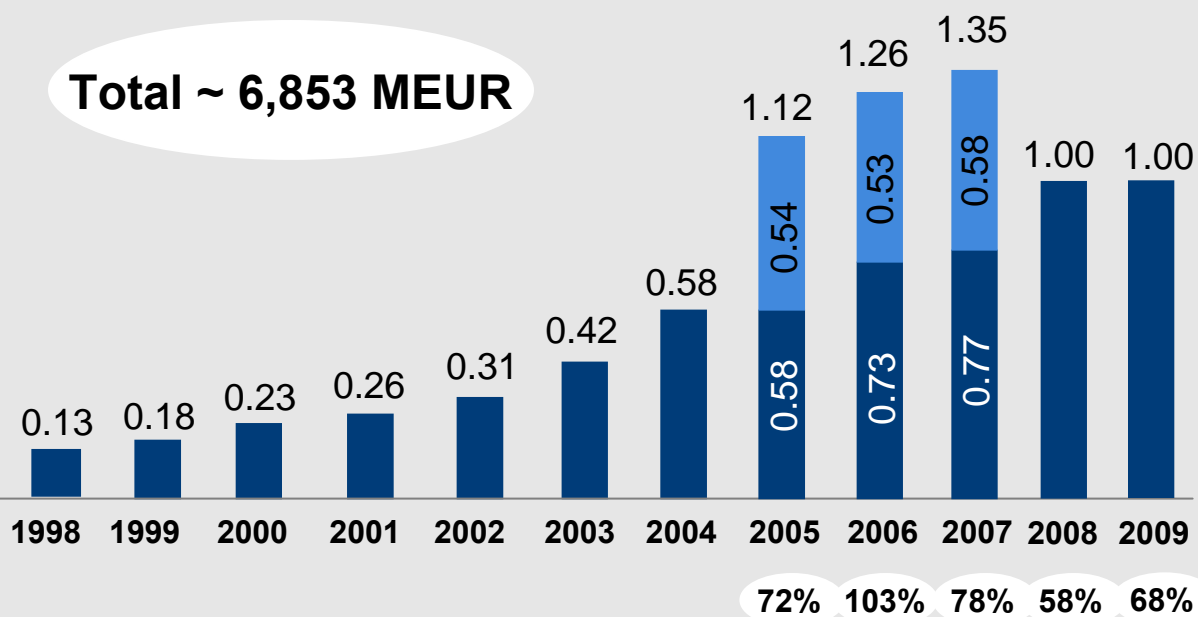
# Our geographical presence today



# Capital returns

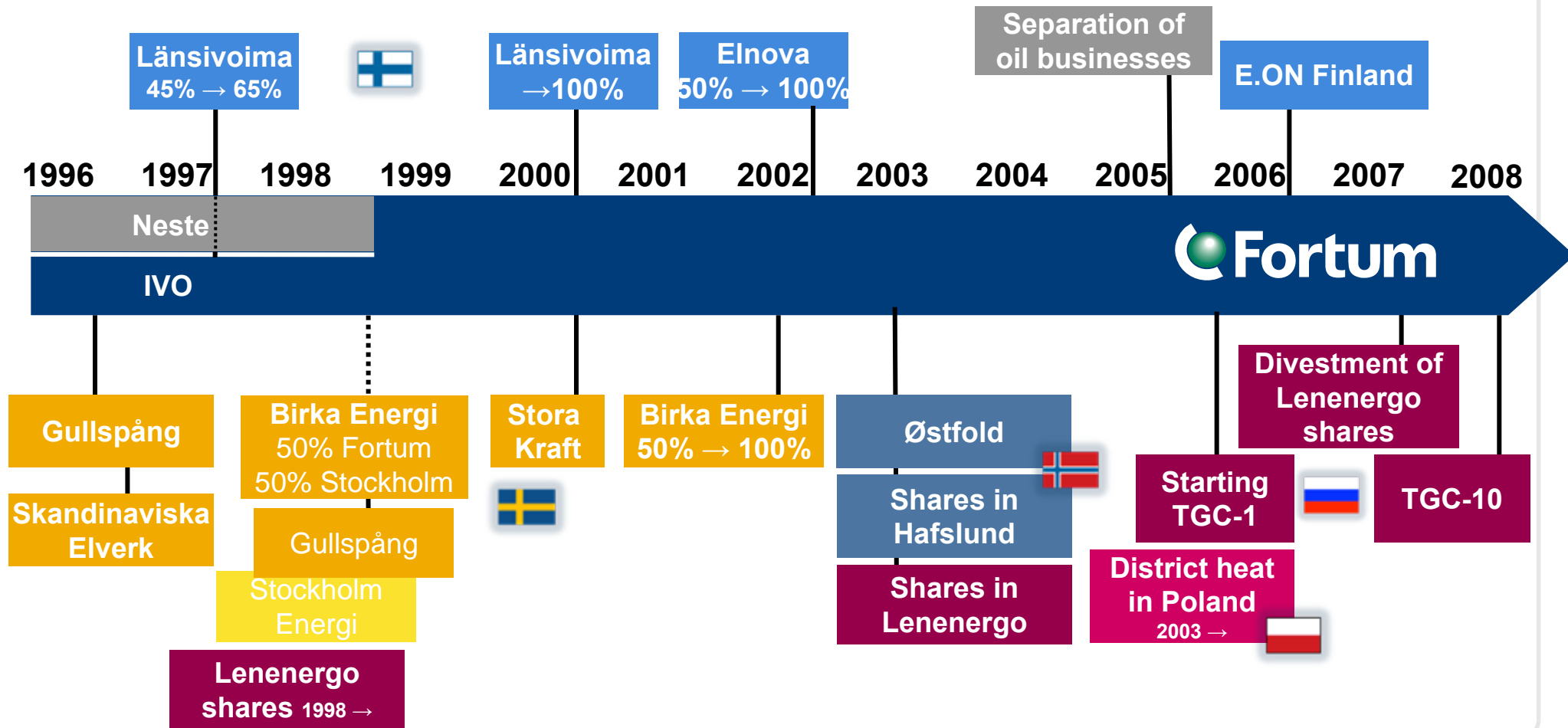
Dividend per share  
EUR

Total ~ 6,853 MEUR

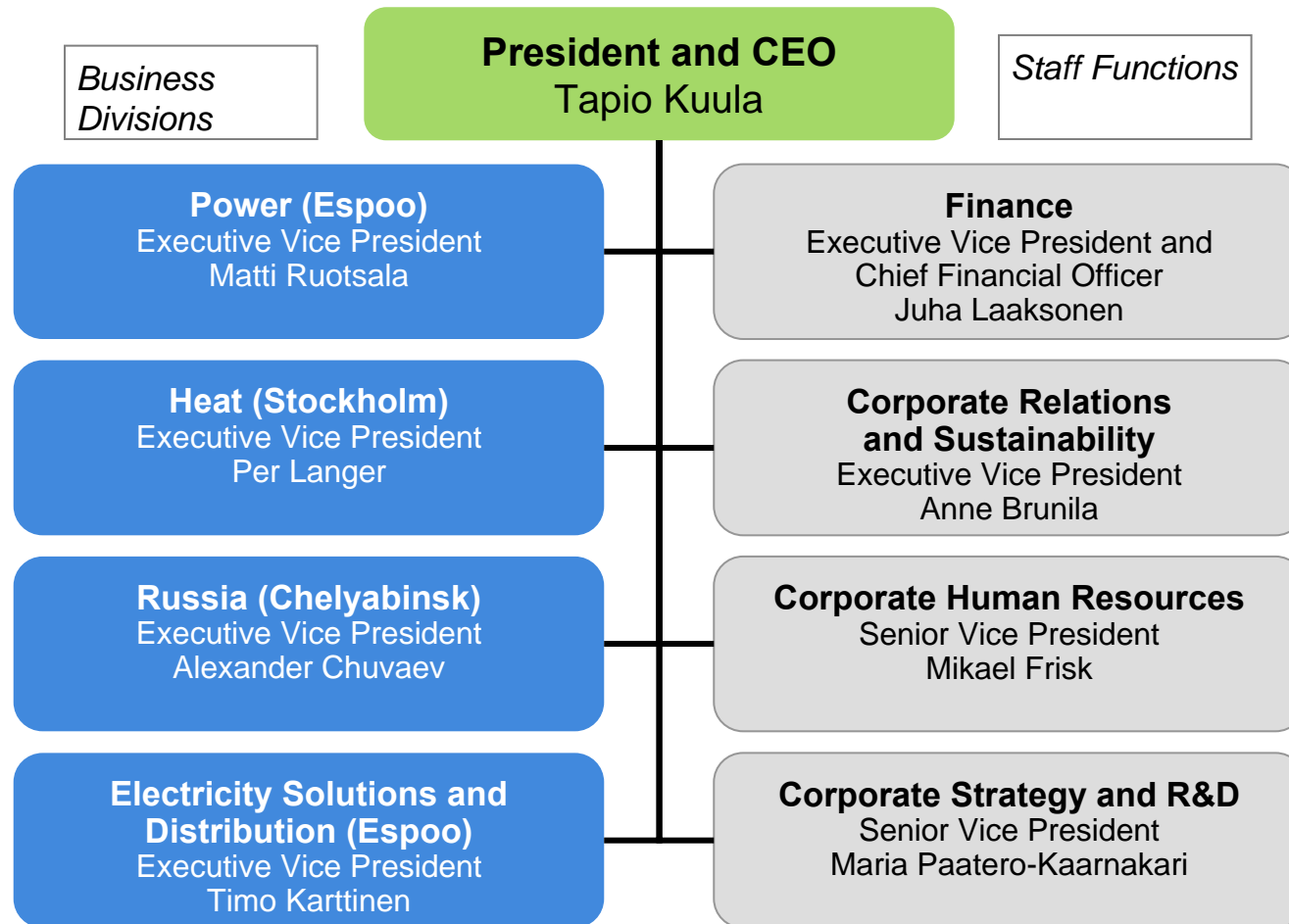


- Dividend 2009 EUR 1.00 per share, in total ~EUR 0.9 billion
- Dividend policy of 50-60% payout of previous year's results on the average

# Fortum's strategic route



# Organisational structure

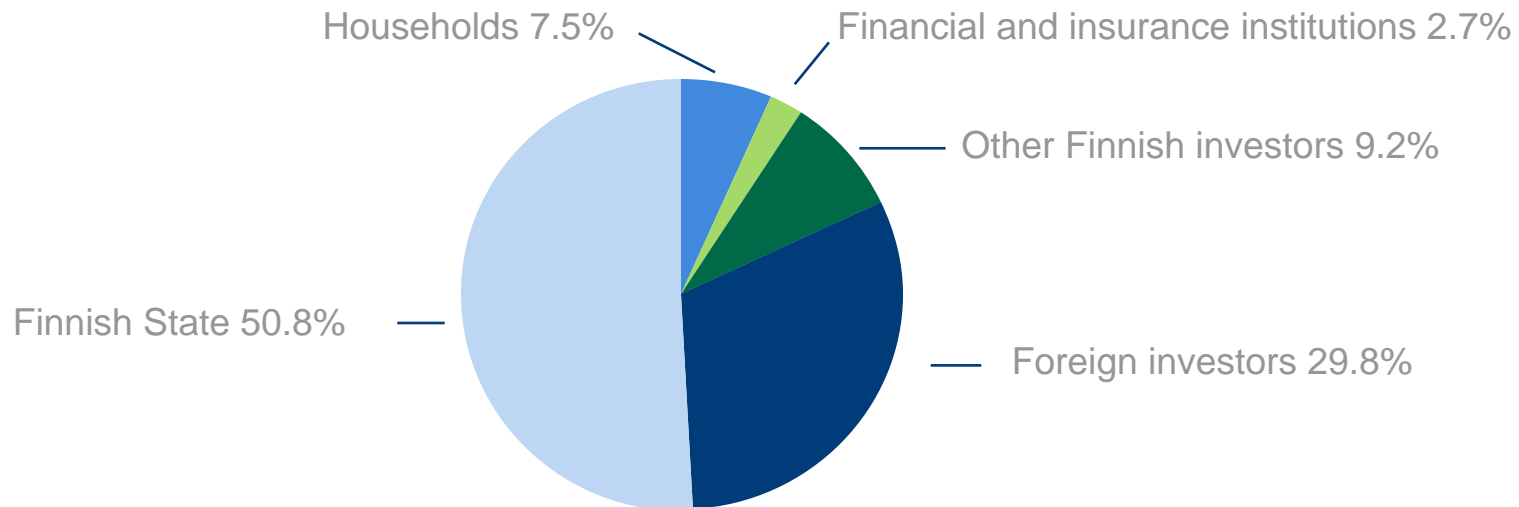


Country responsables: Timo Karttinen / Finland, Norway; Per Langer / Sweden, Poland, Baltics; Alexander Chuvaev / Russia

Improved efficiency, accountability, simplicity

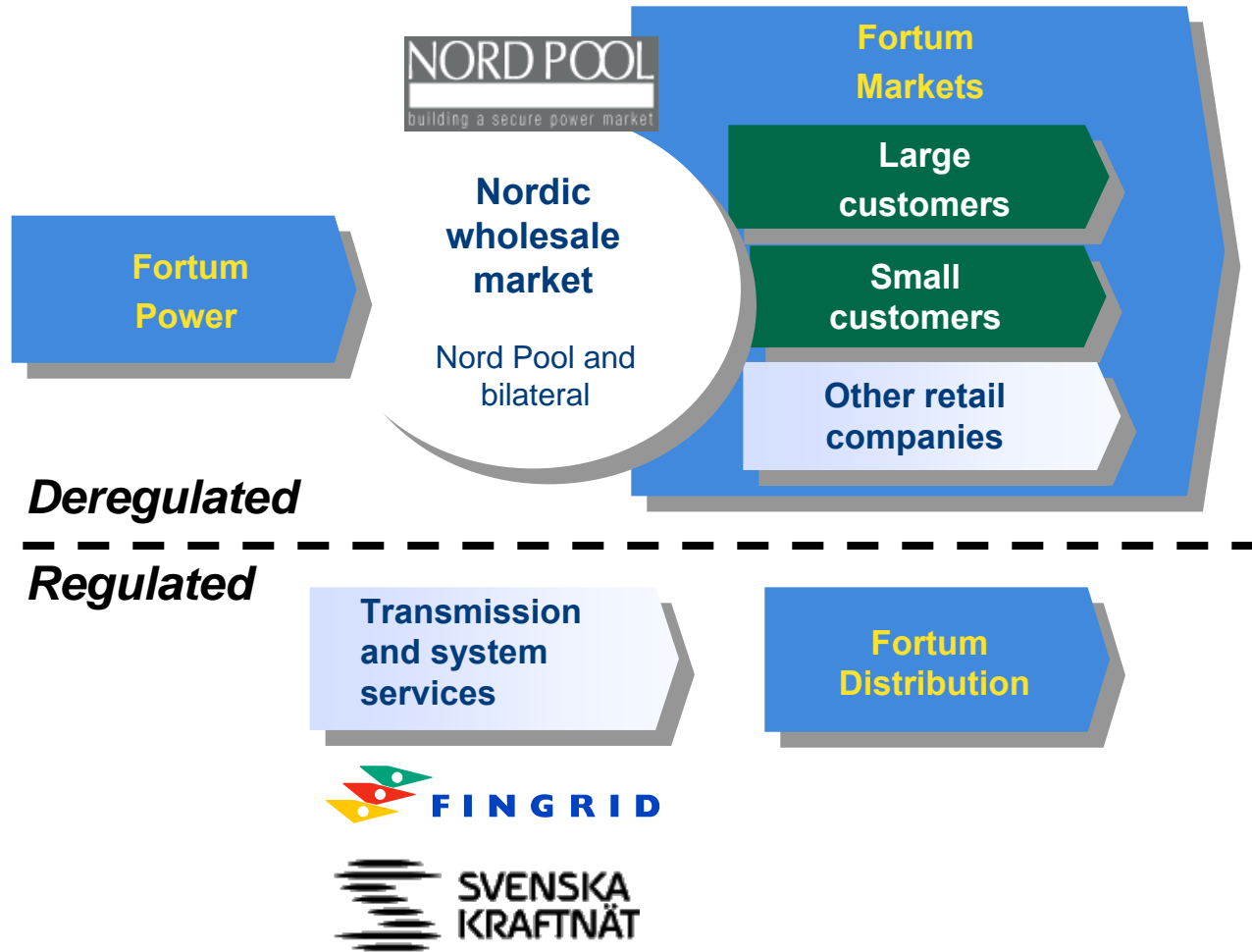
# A leading Nordic power and heat company

- Leading power and heat company in Nordic countries
- Listed at the Helsinki Stock Exchange 1998
- Approximately 95,000 shareholders
- Among the most traded shares in Helsinki stock exchange
- Market cap ~16 billion euros



31 August 2010

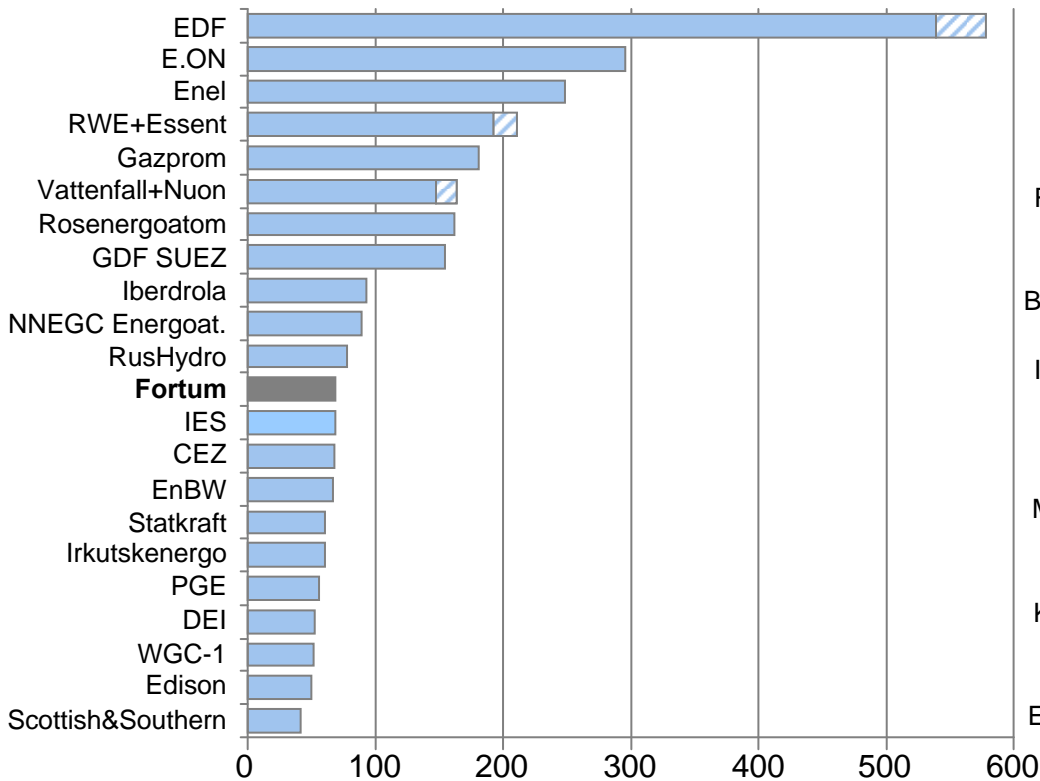
# Fortum in the Nordic electricity value chain



# Fortum mid-sized European power generation player, Global #4 in heat

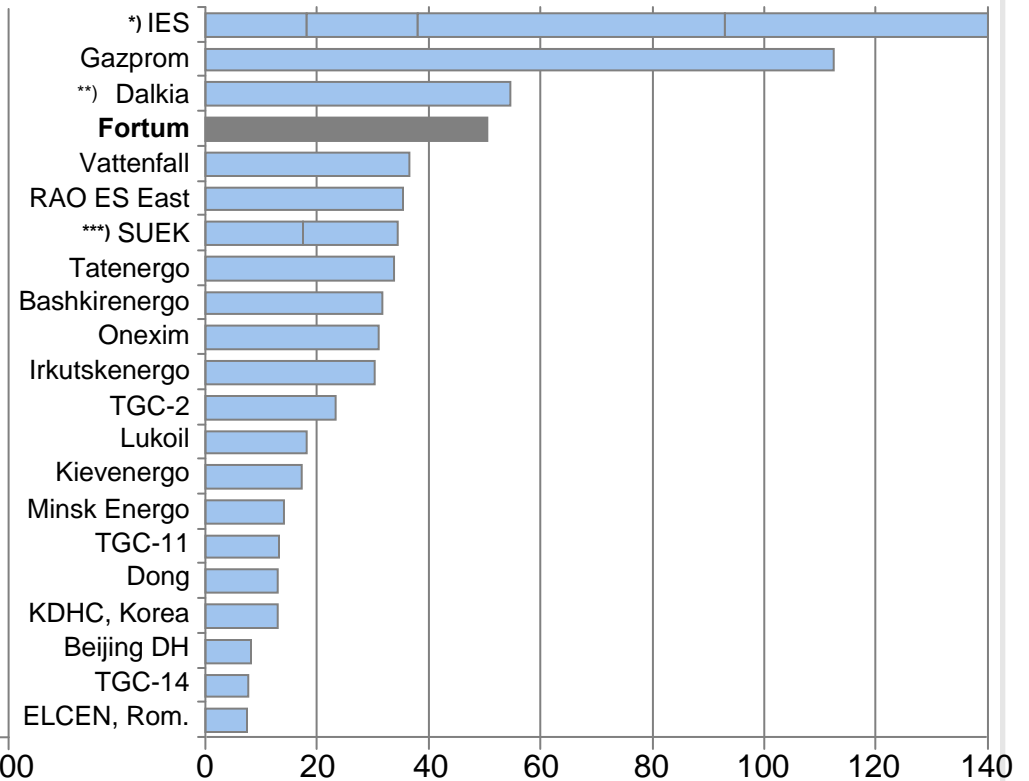
## Power generation

Largest producers in Europe and Russia, 2008 TWh



## Heat production

Largest global producers, 2008 TWh

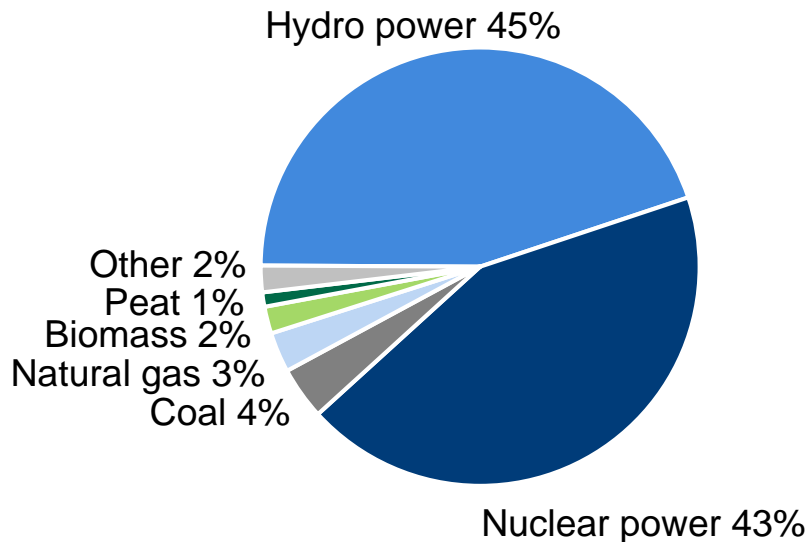


\* incl. TGC-5, TGC-6, TGC-7, TGC-9, \*\*\* incl. TGC-12, TGC-13

Source Company information, Fortum analyses, 2008 figures pro forma, \*\* 2007

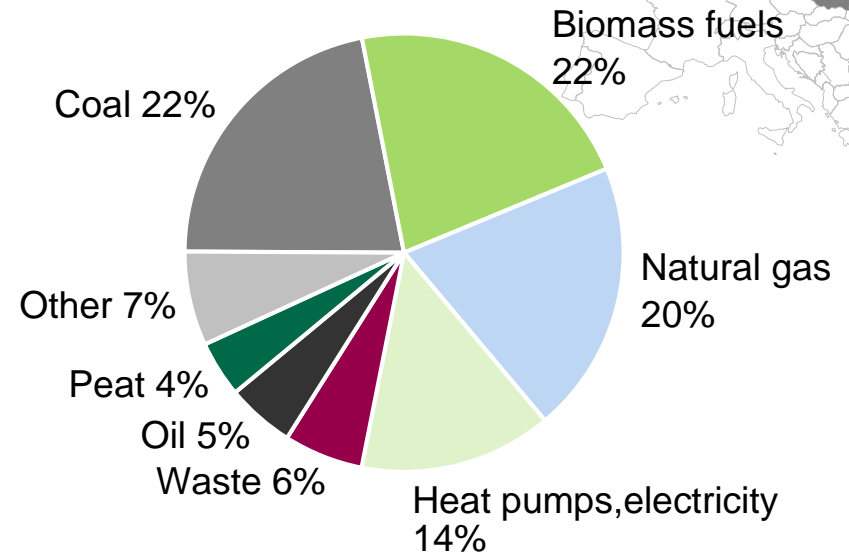
# Fortum's European power and heat production

## Fortum's European power generation in 2009

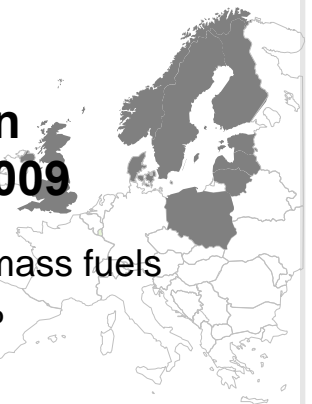


**European generation 49.3 TWh**  
(Generation capacity 11,155 MW)

## Fortum's European heat production in 2009

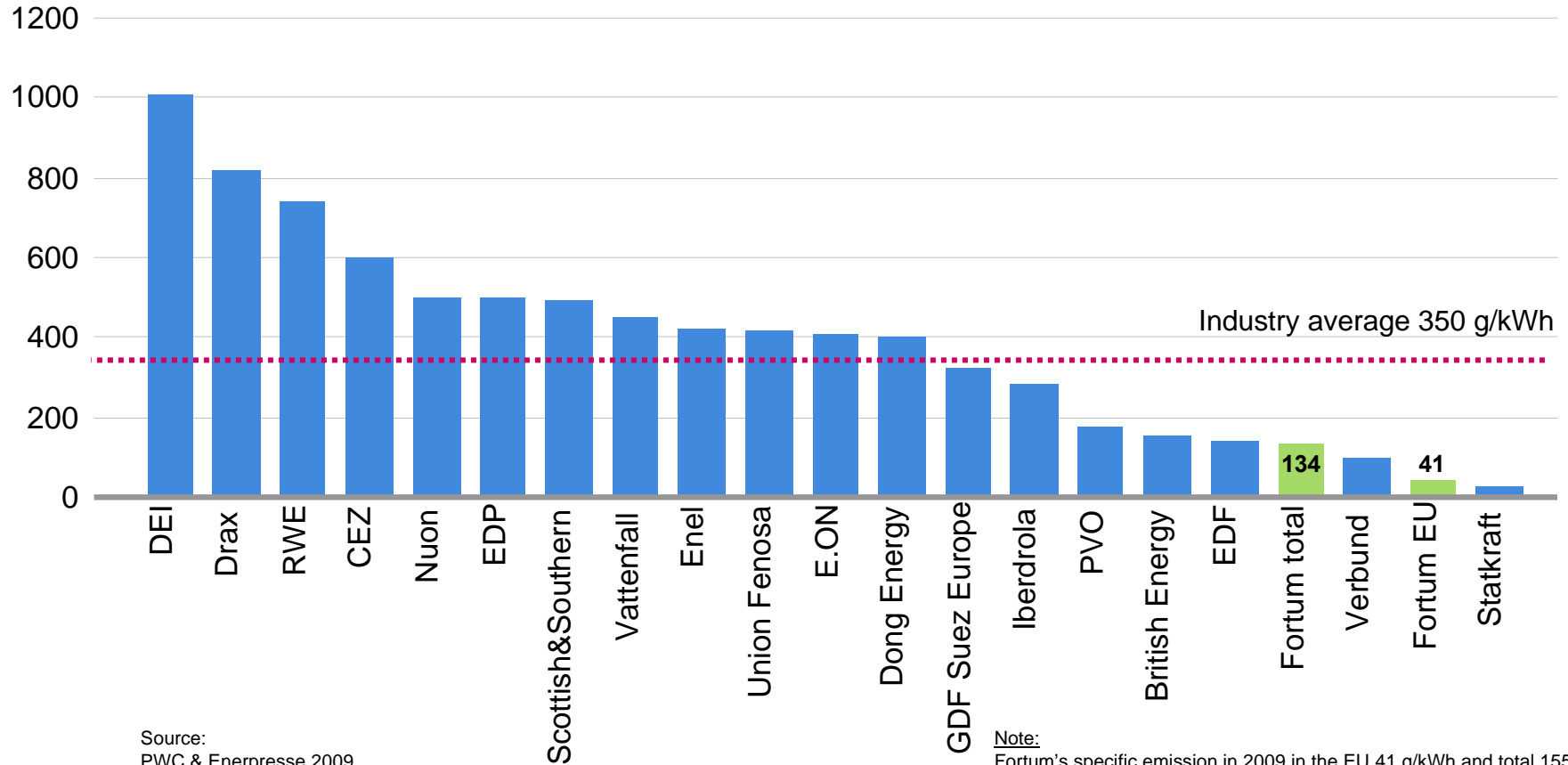


**European production 23.2 TWh**  
(Production capacity 10,534 MW)



# Fortum's carbon exposure among the industry's lowest in Europe

g CO<sub>2</sub>/kWh electricity, 2008



Source:  
PWC & Enerpresse 2009  
Changement climatique et Électricité, Fortum

Note:  
Fortum's specific emission in 2009 in the EU 41 g/kWh and total 155 g/kWh, figures for all other companies incl. only European generation

# Fortum's investment programme

– Nordic region, Poland and Baltic countries

Project	Electricity, MW	Heat, MW	Commissioned
Olkiluoto 3, Finland	400		2013
Swedish nuclear upgrades	260		by 2013
- Forsmark 3 upgrade (to be decided)	30		post 2013
Refurbishing of hydro power	20-30		annually
Czestochowa, Poland (coal/biomass CHP)	65	120	Q3/2010
Pärnu, Estonia (coal/biomass CHP)	20	45	Q4/2010
Brista, Sweden (to be decided) (waste CHP)	20	60	2013?
Klaipeda, Lithuania (biofuel/waste CHP)	20	50	2013
<b>Total by ~2013</b>	<b>&gt;900</b>	<b>~300</b>	

**Electricity capacity over 900 MW**  
**~95% CO<sub>2</sub>-free**



A close-up photograph of the front of a white electric car. The car's surface is covered in numerous water droplets, suggesting it has been washed or is in the rain. A green charging cable is plugged into the charging port on the front left side. The car's headlight and grille are visible. On the right side, a blue license plate with the European Union flag and the letters 'FIN' is partially visible.

Fortum today

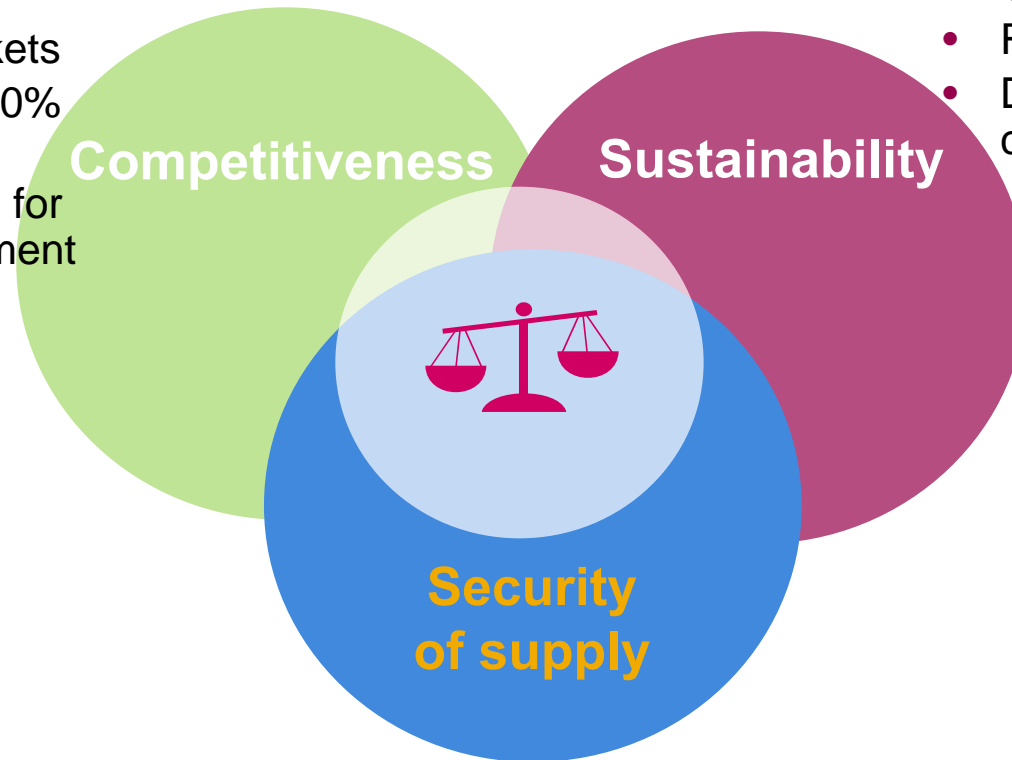
European power markets

Russia

Financials and outlook

# Key EU objectives by 2020

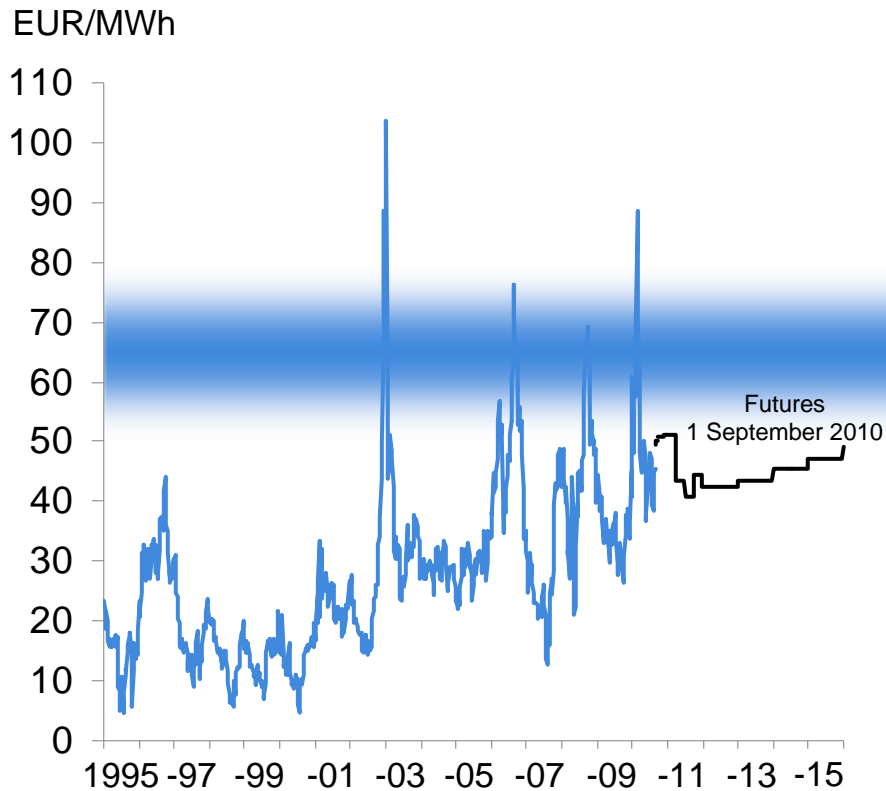
- Implementation of internal energy markets
- Energy efficiency +20% (2020)
- Increased resources for technology development



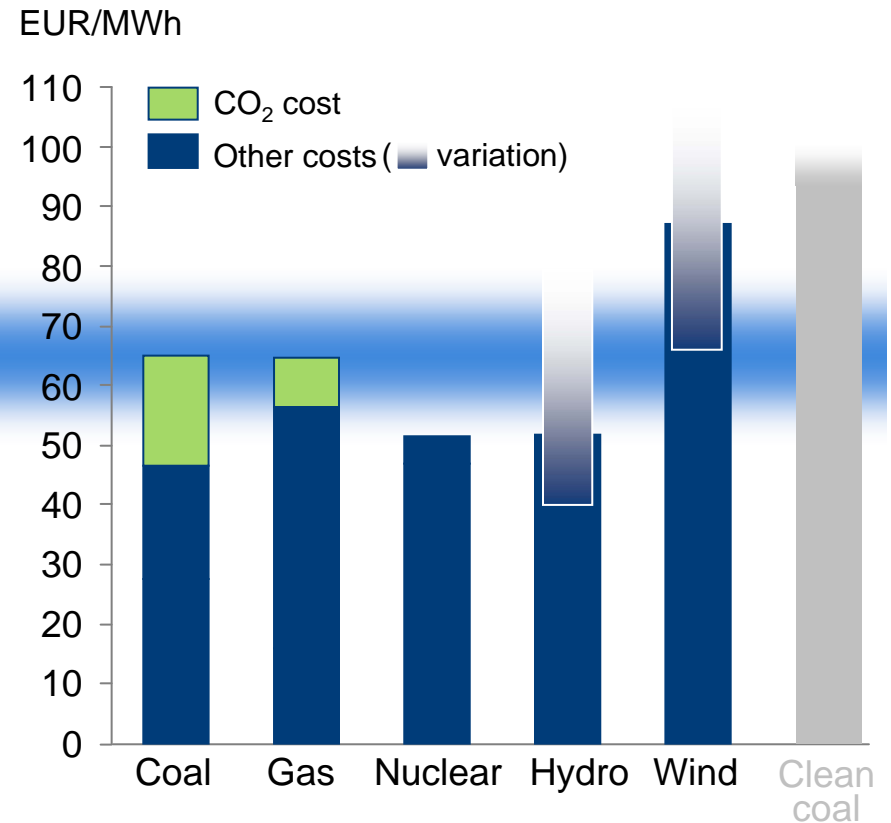
- Minimum reduction of EU CO<sub>2</sub> emissions 20% (2020)
- Renewables 20% (2020)
- Development of CO<sub>2</sub> capture and storage

- Development of cross-border transmission
- Increase in own production
- Enhancement of external energy relations

# New capacity, except nuclear, will require over 60 EUR/MWh power price



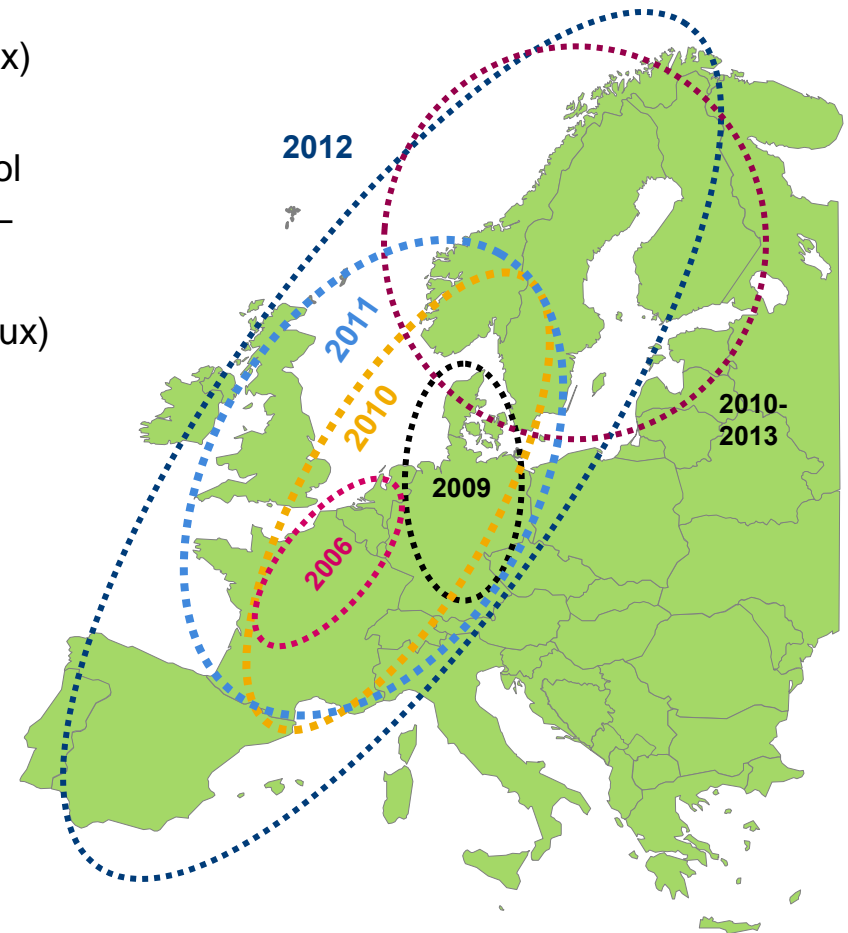
Source: Nord Pool



Estimated lifetime average cost in nominal 2014 terms.  
Large variations in cost of new hydro and wind due to location and conditions.

# Market coupling milestones

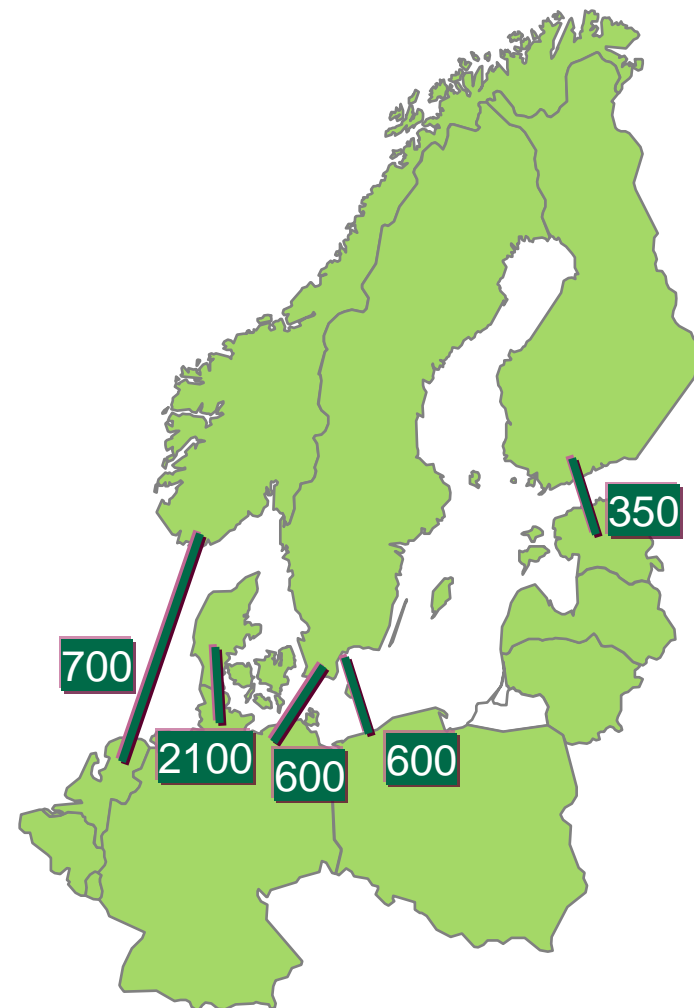
- Market coupling between Netherlands (APX), Belgium (Belpex) and France (Powernext) since 2006
- Market coupling Germany (EPEX Spot) – Denmark (Nord Pool Spot) started in November 2009 with Baltic Cable (Germany – Sweden) included in May 2010
- Market coupling for Central Western Europe (DE, FR, BeNeLux) due to start in November 2010 combined with a continued coupling mechanism with Nord Pool Spot
- NorNed cable (NO-NL) due to be included in December 2010
- UK coupling to be started through BritNed cable during 2011
- The TSOs and power exchanges are developing a single market coupling for the whole western Europe by 2012
- Estonian price area in Nord Pool Spot since April 2010 with full integration of the Baltic States during 2011–2013
- EU's European Target Model for cross-border power trading sets 2015 as deadline for an EU-wide market coupling



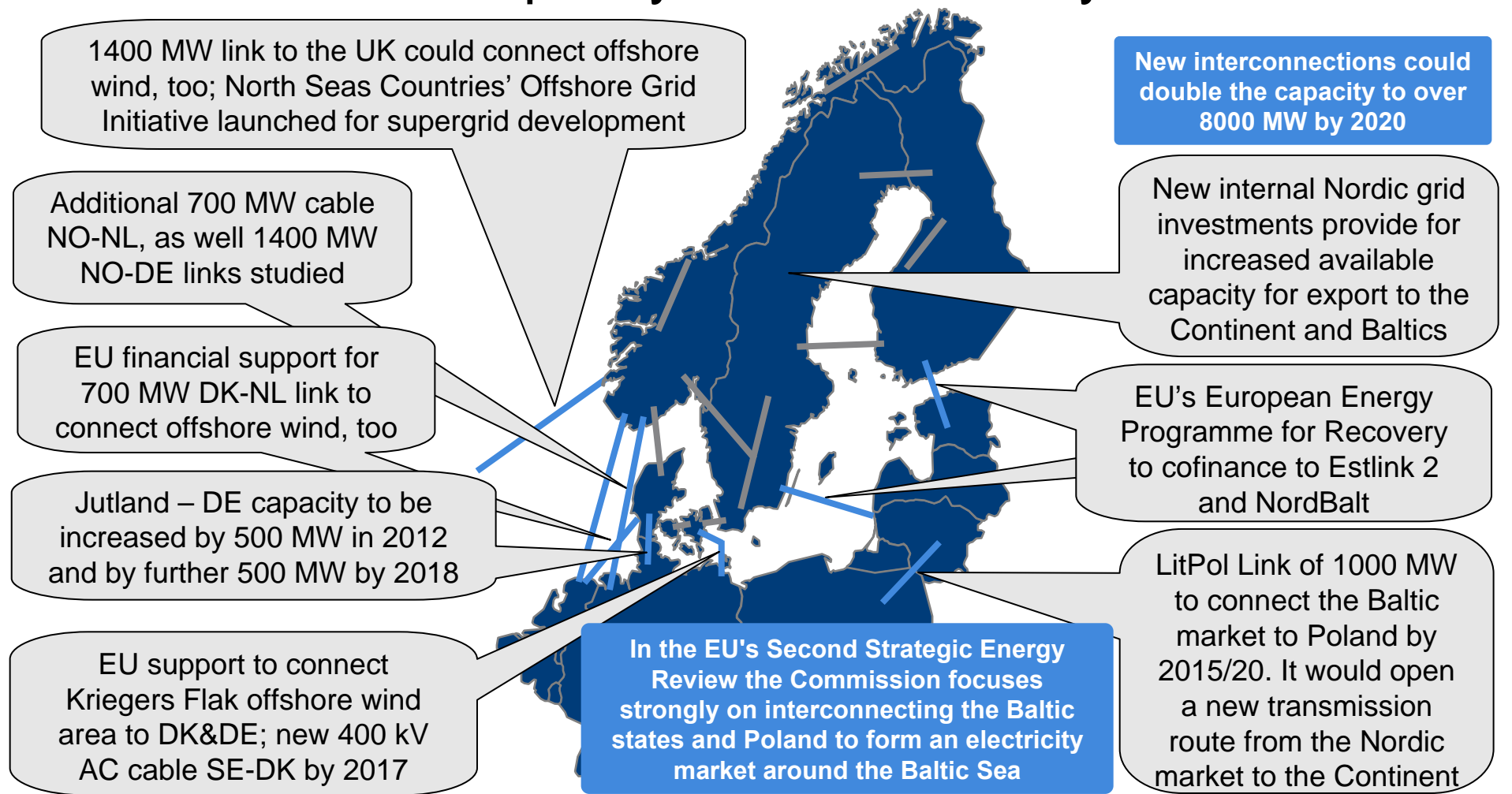
# Current transmission capacity from Nordic area to Continental Europe is ~4000 MW

Countries	Transmission capacity MW	
	From Nordel	To Nordel
Denmark - Germany	2 100	1 550
Sweden - Germany	600	600
Sweden - Poland	600	600
Norway - Netherlands	700	700
<b>Total</b>	<b>4 000</b>	<b>3 450</b>

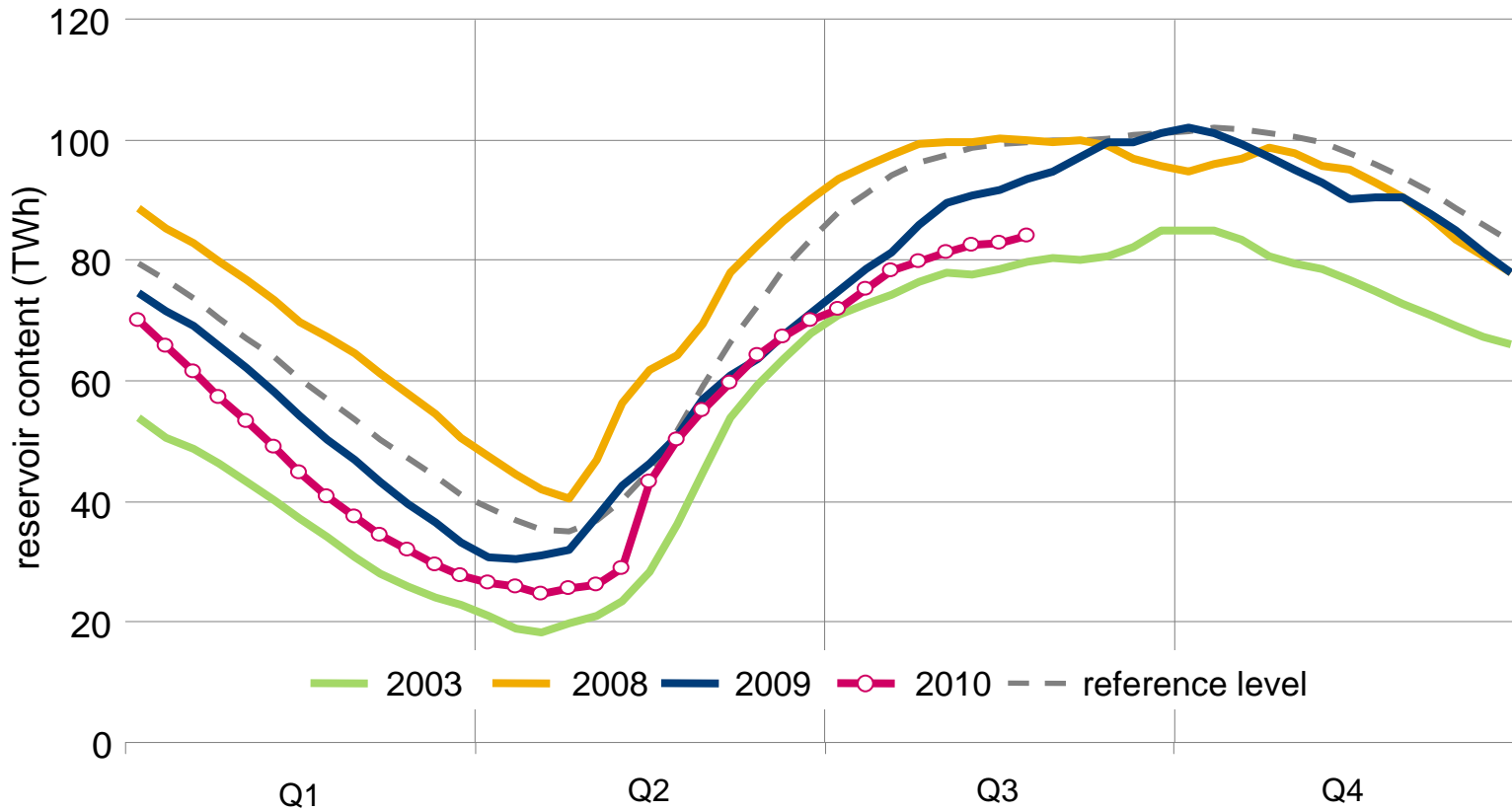
- Theoretical maximum in transmission capacity ~35 TWh per annum
- Net export from Nordic area to Continental Europe in 2008 was ~15 TWh and in 2009 ~5 TWh
- Approximately 20 TWh net export fairly easily reachable



# Nordic and Continental markets are integrating – interconnection capacity could double by 2020

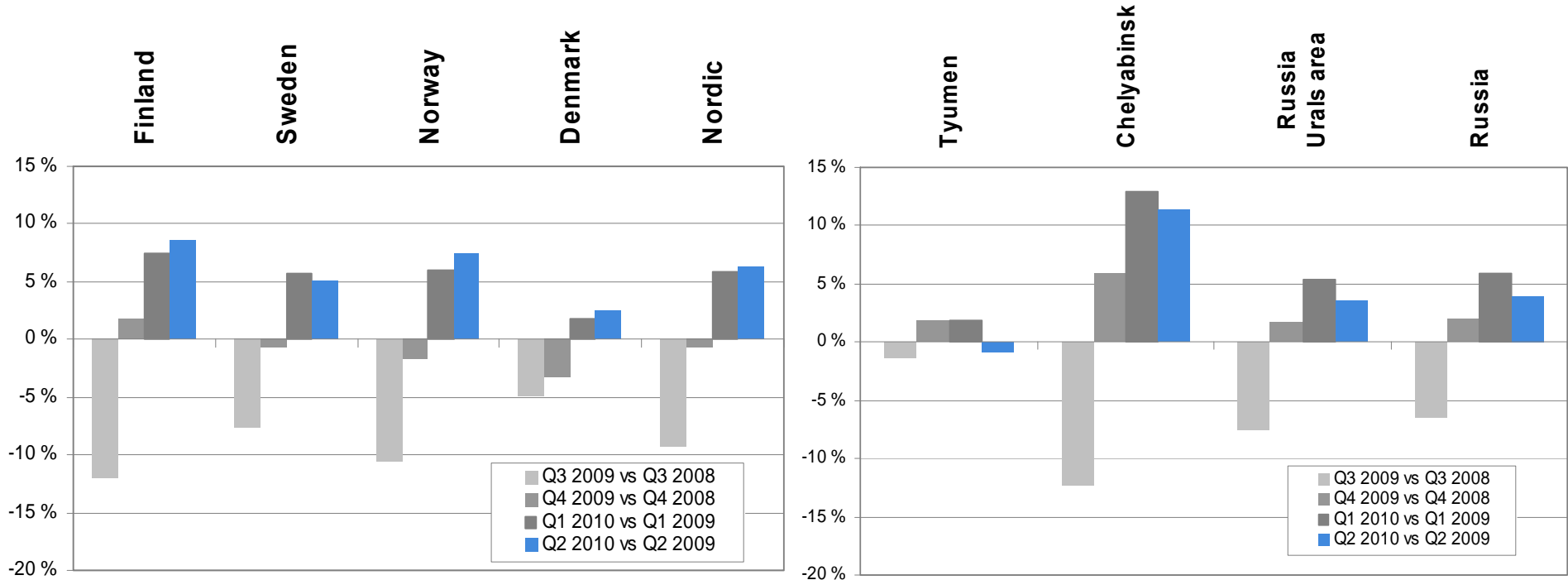


# Nordic water reservoirs



Source: Nord Pool

# Increased power consumption



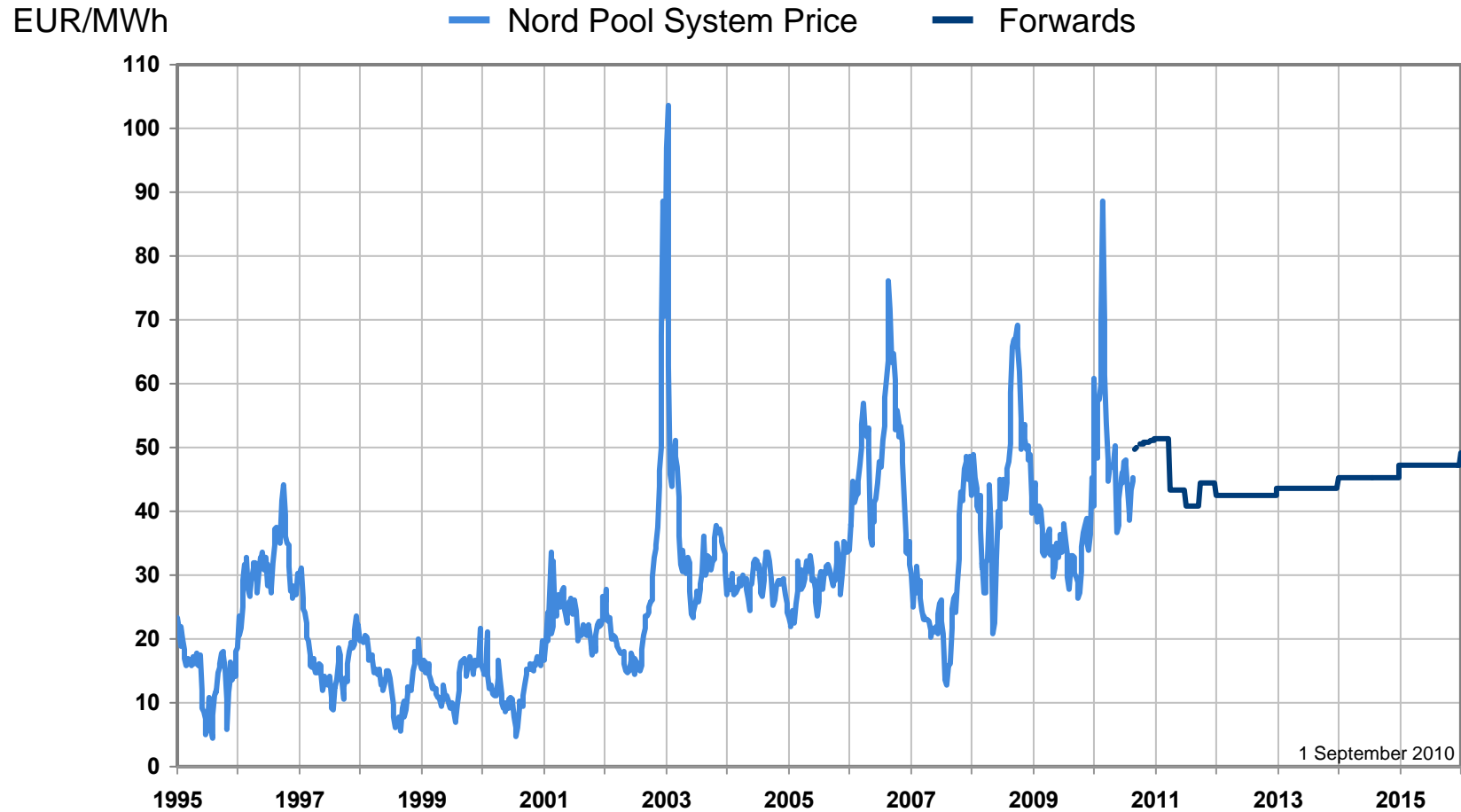
Q2/10 consumption increased +6% in the Nordic area (Year-on-year)

Q2/10 consumption increased +4% in Russia (Year-on-year)

Tyumen -1%, Chelyabinsk +11%

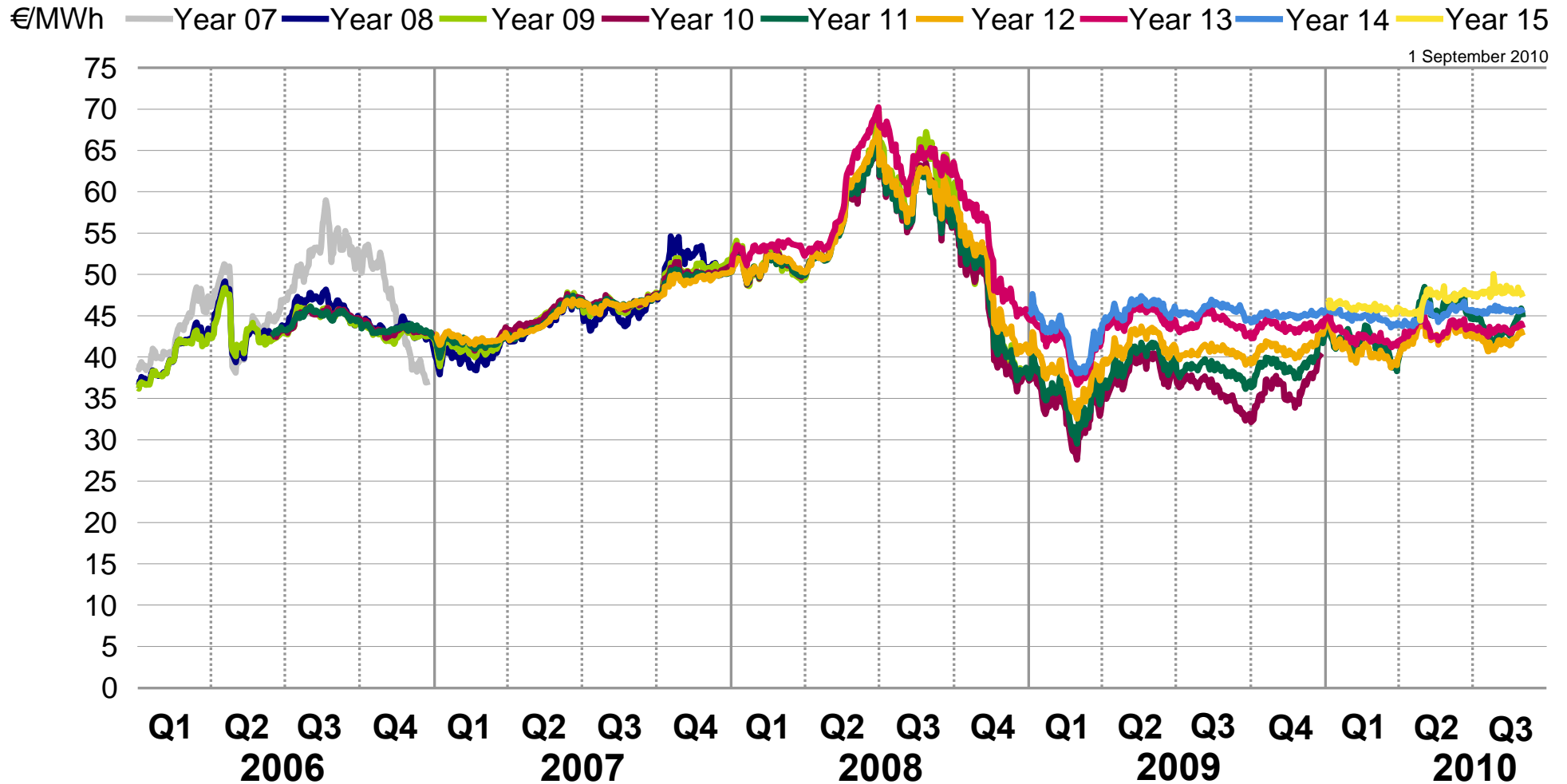
- Fortum currently expects Nordic power demand to recover back to the 2008 level by 2012-2014

# Wholesale price for electricity

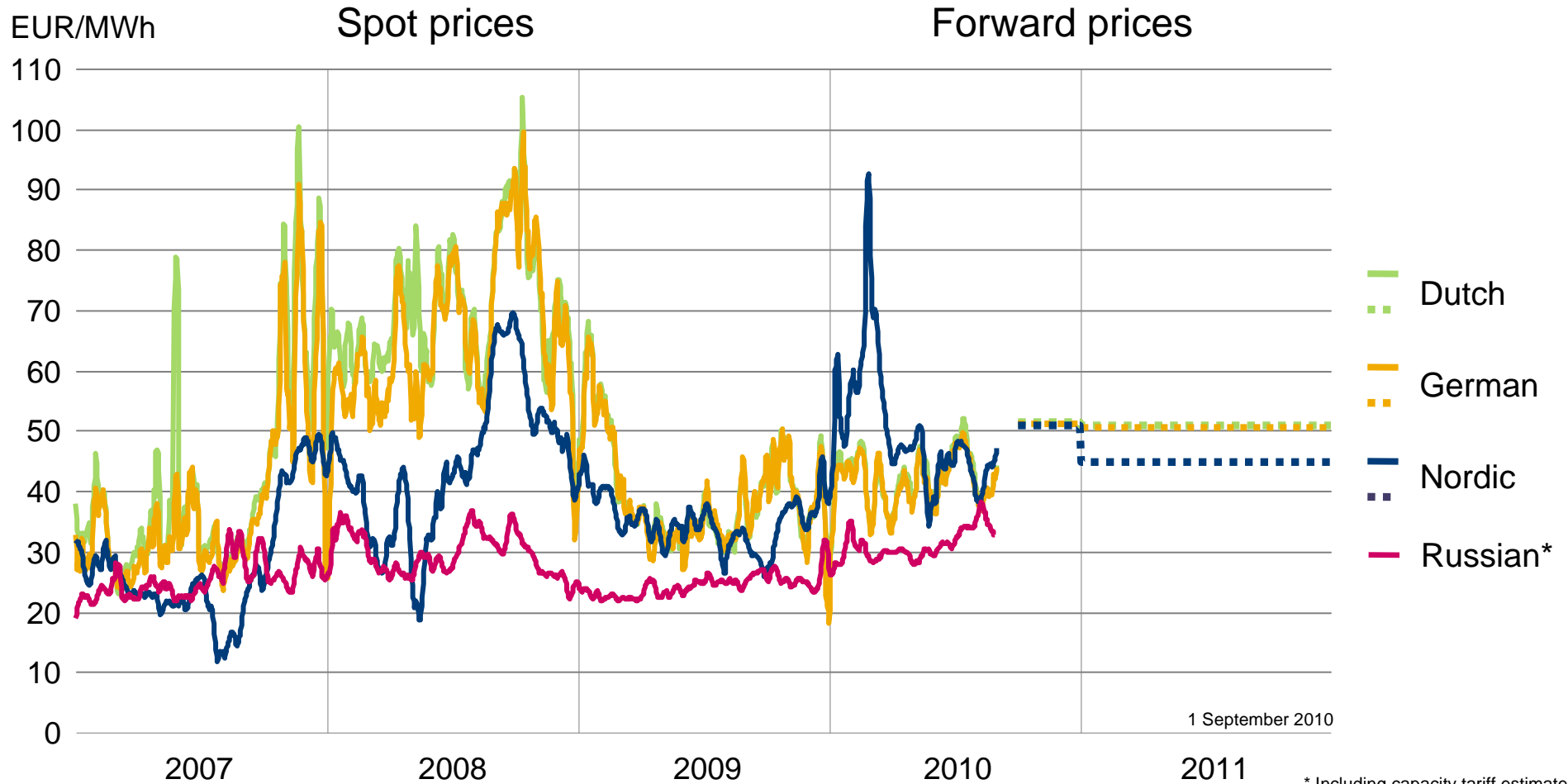


Source: Nord Pool

# Nord Pool year forwards

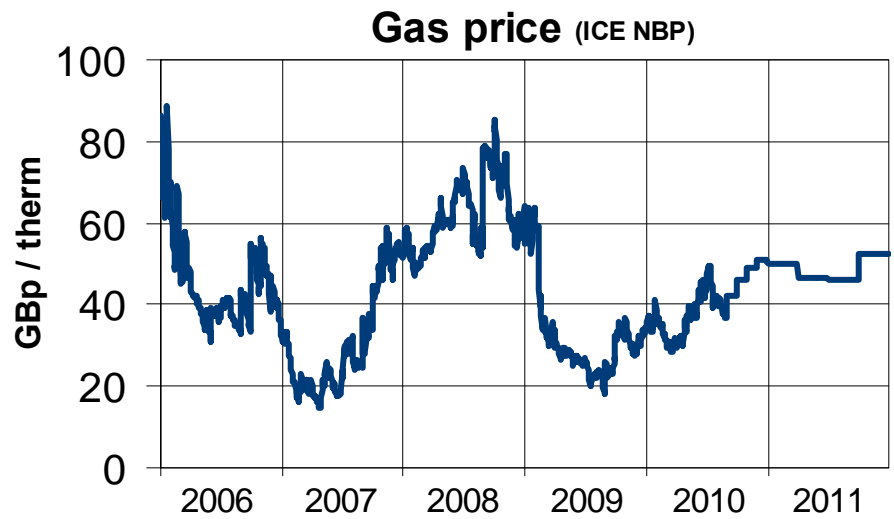
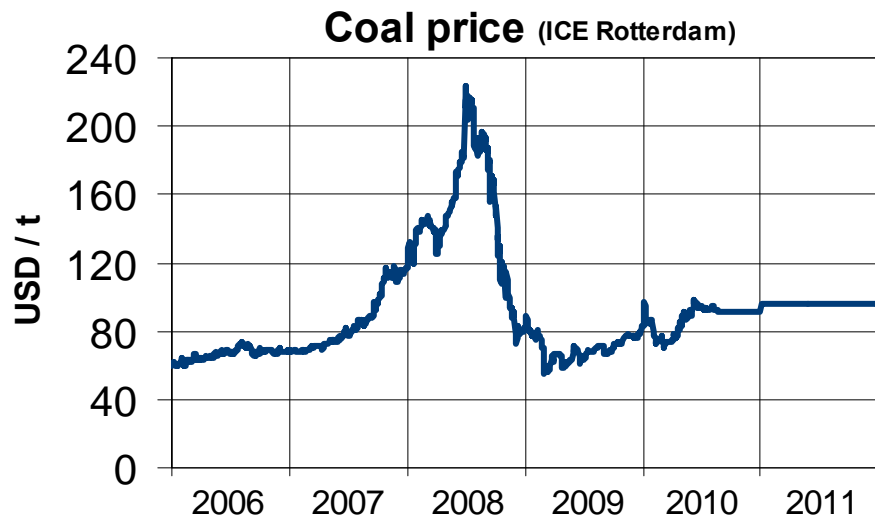
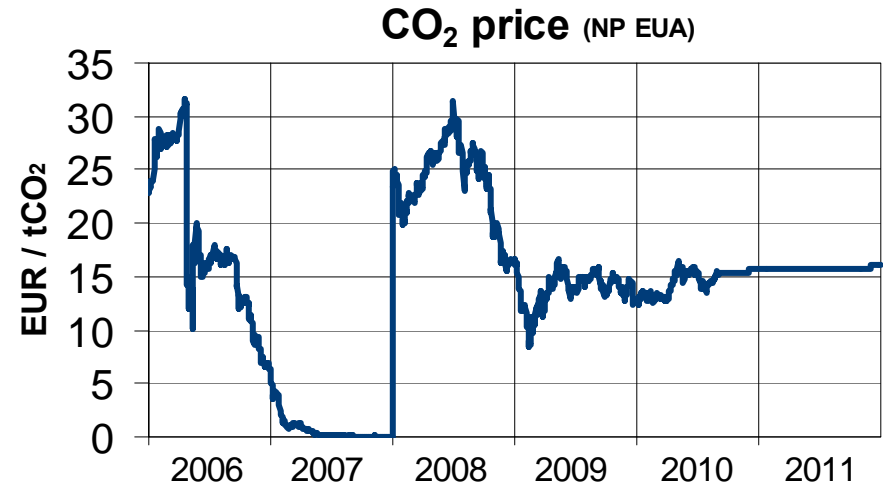
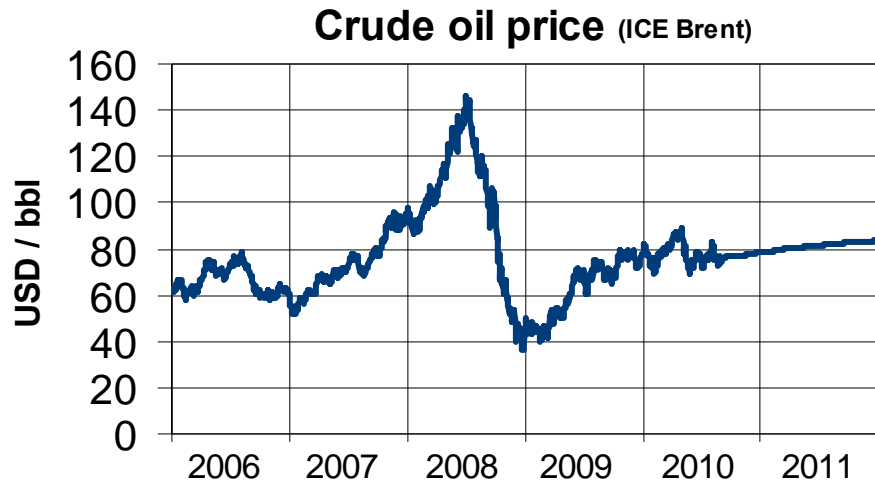


# Wholesale prices for electricity



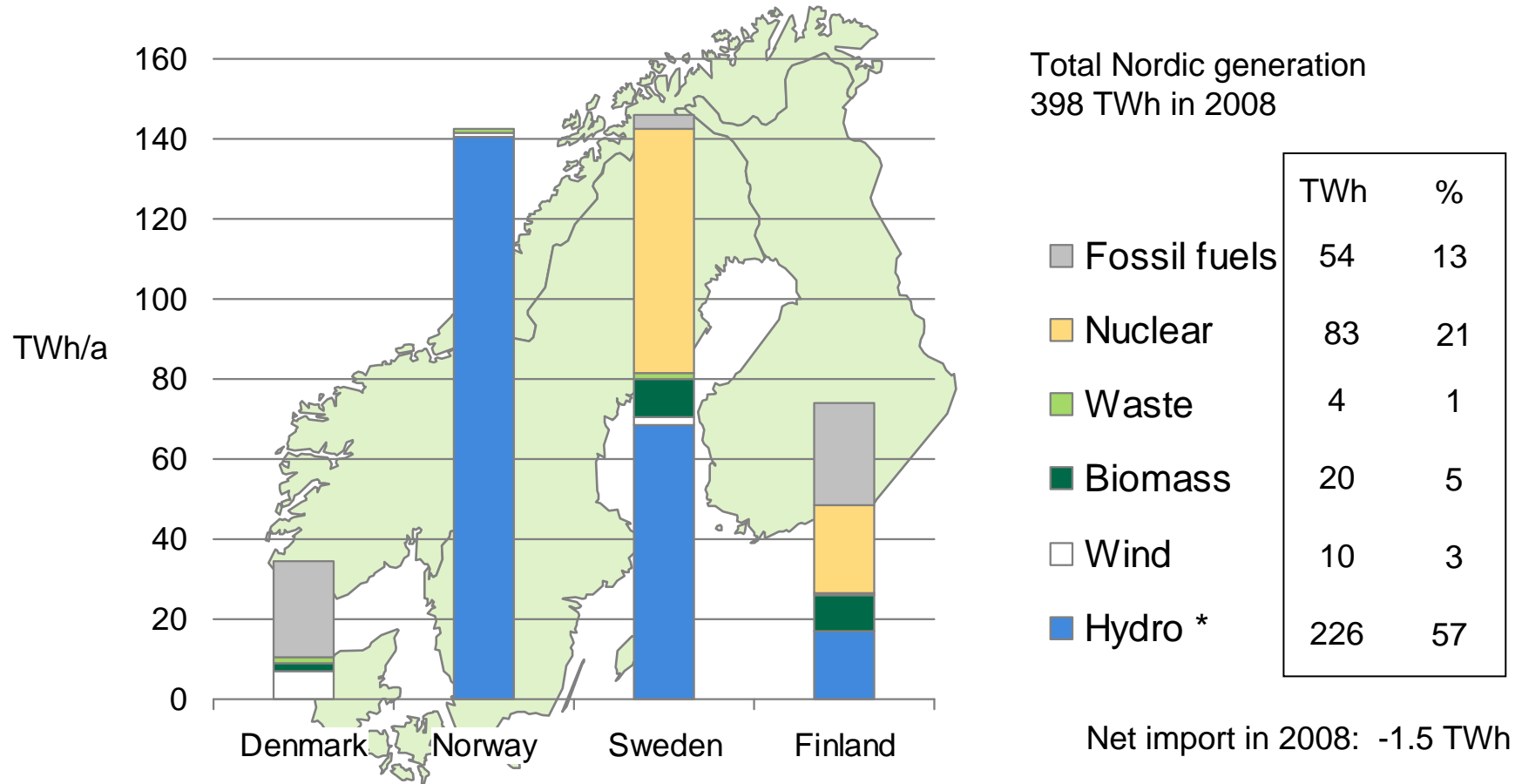
\* Including capacity tariff estimate.  
E.g 9.4 €/MWh for 2009 and 2010.

# Fuel and CO<sub>2</sub> allowance prices



Source: ICE, Nord Pool

# Nordic power generation mix



Source: Nordel

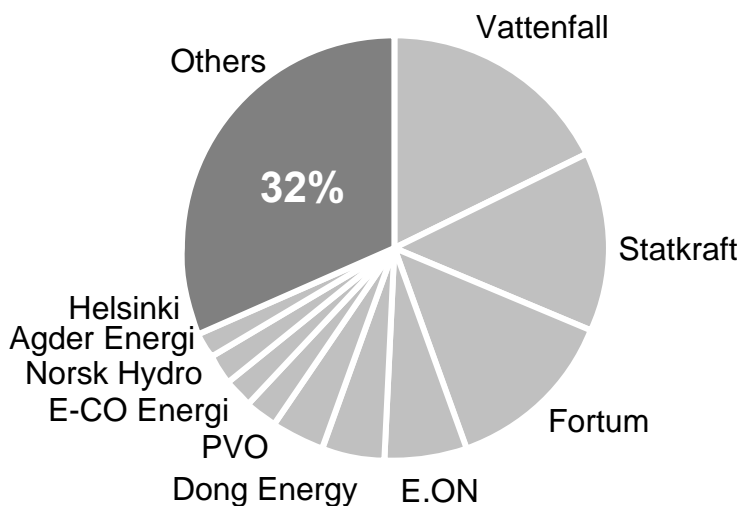
\*) Normal annual Nordic hydro generation 200 TWh, variation +/- 40 TWh.

# Still a highly fragmented Nordic power market

## Power generation

370 TWh

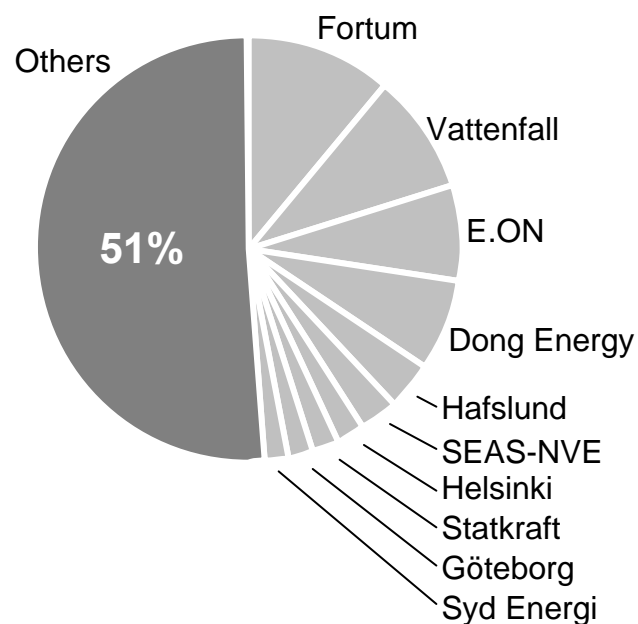
>350 companies



## Electricity distribution

14 million customers

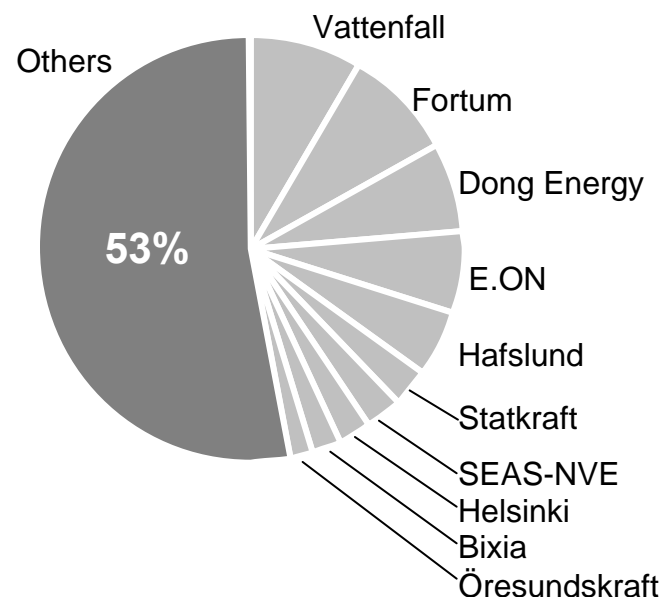
~500 companies



## Electricity retail

14 million customers

~350 companies



Current market shares based on 2009 figures, active players



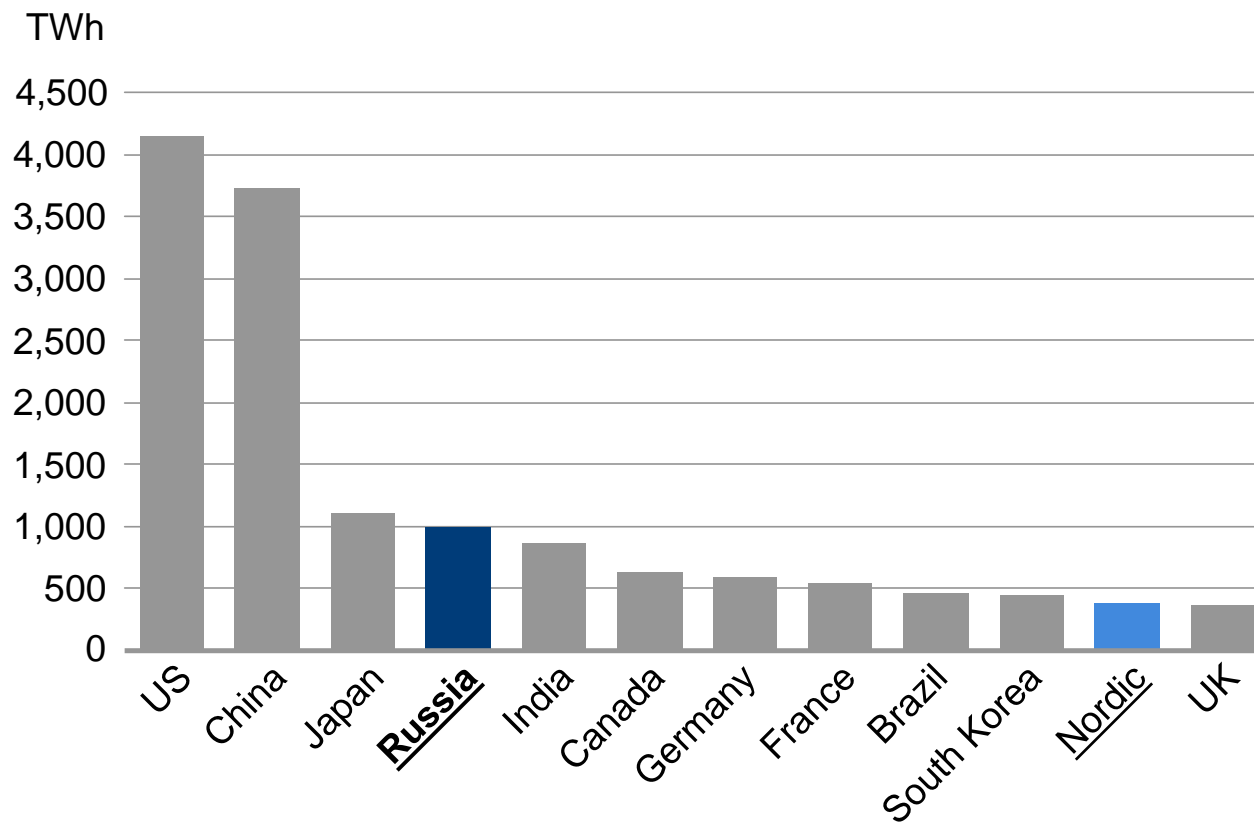
Fortum today

European power markets

Russia

Financials and outlook

# Russia is the World's 4th largest power market



Data 2009 based on gross output.  
Source: BP Statistical Review of World Energy June 2010

# Fortum - a major player in Russia

## OAo Fortum (former TGC-10)

- Majority of the Russian territorial generating company OAo Fortum in the Urals region
- OAo Fortum operates in the heart of Russia's oil and gas producing region
- OAo Fortum's power generation ~16 TWh/a and heat generation ~26 TWh/a
- Annual efficiency improvement approximately EUR 100 million in 2011

## TGC-1

- Slightly over 25% of territorial generating company TGC-1 operating in north-west Russia
- ~6,350 MW electricity production capacity (appr. 50% hydro), ~27 TWh/a electricity, ~31 TWh/a heat



# Russian power industry reform has progressed well

Key steps in the reform	Time
"Power industry law" approved	2003
Establishment of Russian power exchange (ATS)	2001
Launch of the free-trade sector of the wholesale market in European & Urals	2003
in Siberia	2005
Launch of balancing power segment	2006
Launch of new wholesale market model	2006
Restructuring of regional "energос" (P&H companies)	complete
Formation of new companies	complete
Capacity market – transitional model	2008
Long term capacity market model	2010
Competitive market of ancillary services	2010
Financial derivatives market	2010
Full liberalisation of the wholesale market	2011 onwards

# Power market liberalisation – two markets

## Capacity market



### Capacity price

- Capacity auctions (first in Oct 2010)
- A higher, fixed capacity price for new capacity (CSA agreements, >2007)
- 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
- S/D and fuel price key drivers

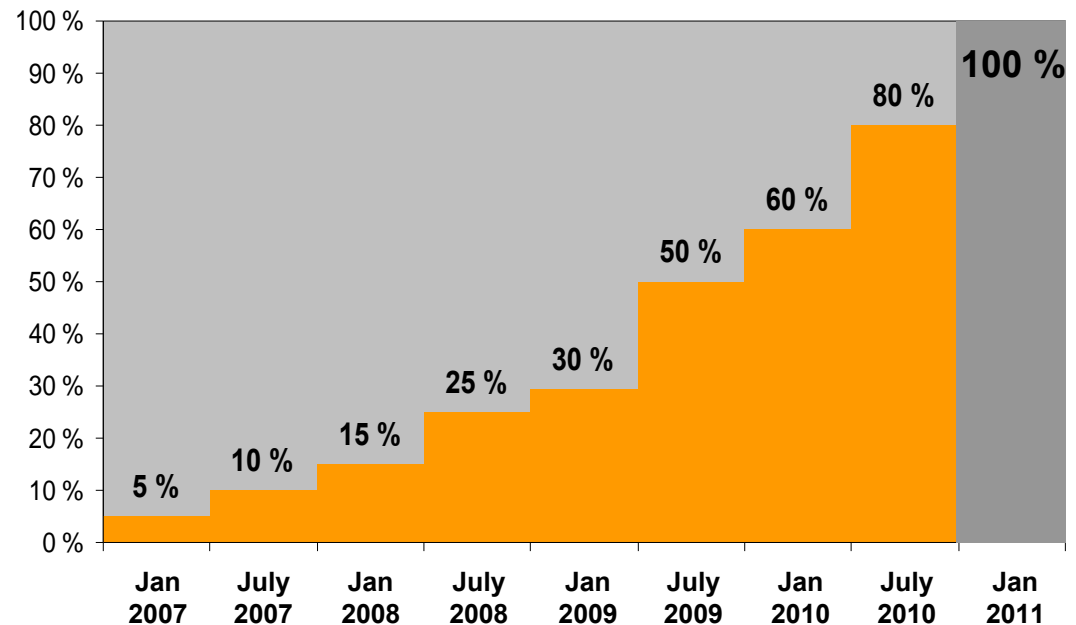
- Capacity market is the intended mechanism for earning a (reasonable) return on invested capital
- Capacity prices are a big part of a power generator's income
  - a typical CHP plant ~35%, CCGT ~55% of revenues
- In the day ahead (spot) market, the price mechanism is a day ahead hourly auction, variable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

# Power market liberalisation

– wholesale power market will be 100% liberalised in 4 months

- Further liberalisation of energy market increased to 80% in July 2010
- 100% in 1 January 2011
- The sales to households will remain regulated still after 2011

Share of liberalised trade for existing capacity

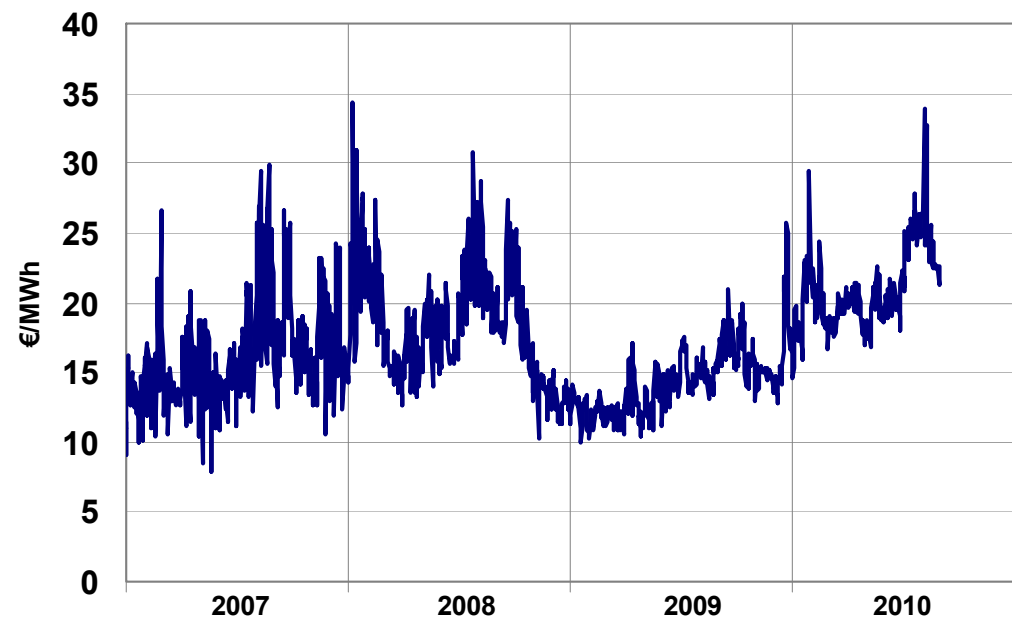


# Day ahead wholesale market prices

– increase driven by recovering demand and gas price

- Demand 2% lower comparing to pre-crisis levels in the overall Russia
- Regulated gas price increased 24% in 2010 compared to the average in 2009
  - expected to be unchanged for the rest of 2010
  - Planned to be increased by 15% in 2011

Day ahead power market prices for Urals



In addition to the power price generators receive a capacity payment.

# Power market liberalisation – Capacity market

- Long term rules and price parameters approved
- All kinds of capacity 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
  - After three years (2014), the regulator will review the earnings from the electricity-only market and can revise the payments

- “Old” capacity prices will depend on auction outcomes, but likely remain relatively low
- “New” capacity prices can be 2-3 times the “old” capacity prices

# New capacity will receive clearly higher payments than the old

## Estimated capacity price for new capacity\*, RUB/MW/month

Region	Gas condensing (CCGT)			Coal condensing	
	>250 MW	150-250 MW	<150 MW	>225 MW	<225 MW
South	500,000	617,000	771,000	1,048,000	1,130,000
Center	524,000	647,000	810,000	1,100,000	1,187,000
Urals	554,000	685,000	858,000	1,165,000	1,257,000
Siberia	845,000	996,000	1,194,000	1,680,000	1,815,000

## Estimated capacity price for new capacity\*\*, EUR/MW

Region	Gas condensing (CCGT)			Coal condensing	
	>250 MW	150-250 MW	<150 MW	>225 MW	<225 MW
South	17	21	26	35	38
Center	18	22	27	37	40
Urals	19	23	29	39	42
Siberia	28	33	40	56	61

## Estimated capacity price for new capacity\*\*, EUR/MWh with a 65% load rate

Region	Gas condensing (CCGT)			Coal condensing	
	>250 MW	150-250 MW	<150 MW	>225 MW	<225 MW
South	26	32	40	54	58
Center	27	33	42	57	61
Urals	29	35	44	60	65
Siberia	44	51	62	87	94

Source: Market Council, Troika, Fortum

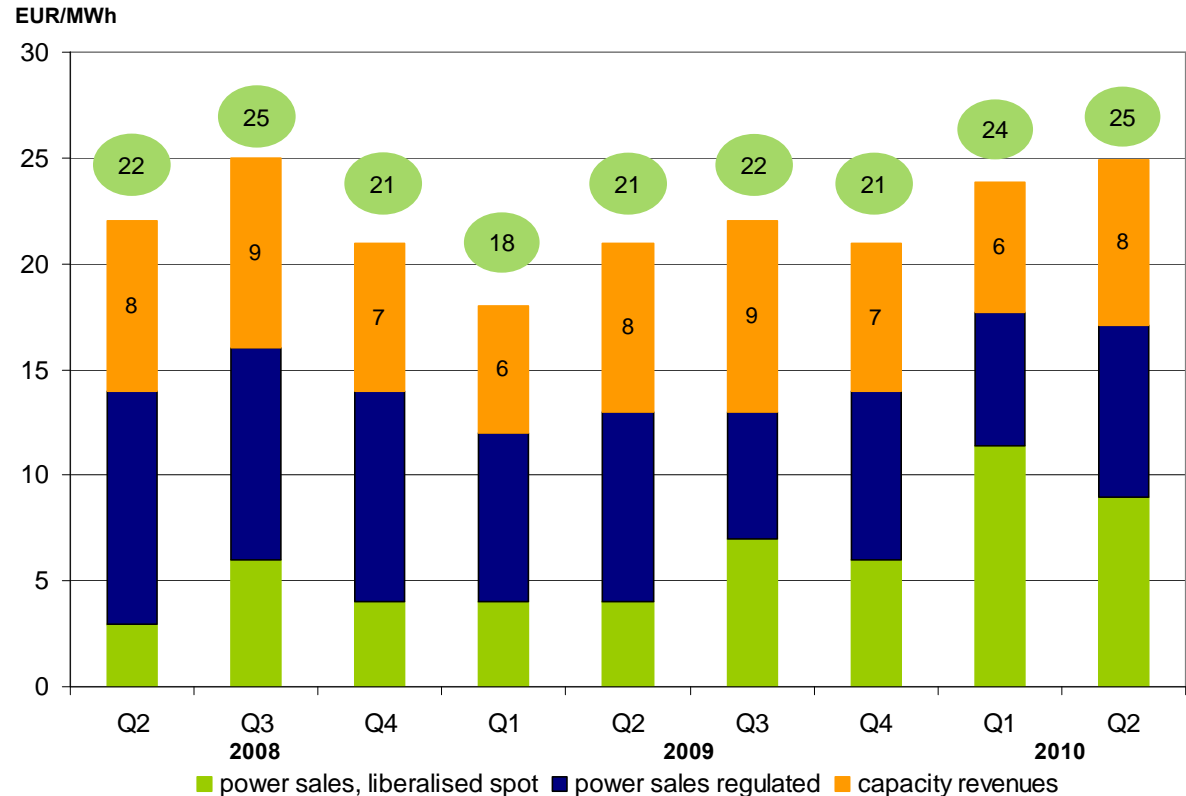
\*Rate of return 14%, payback period 15 years. YTM of 8.5% for local government bonds (now ~7%)

\*\* RUB/EUR at 40, a month with 31 days

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

- Last twelve months, Fortum Russia's revenues were almost equally split between three components
- Regulated power sales not relevant post 2010
- Higher share of capacity payments from new capacity to be commissioned starting 2010

Achieved total power price, Russia Division\*



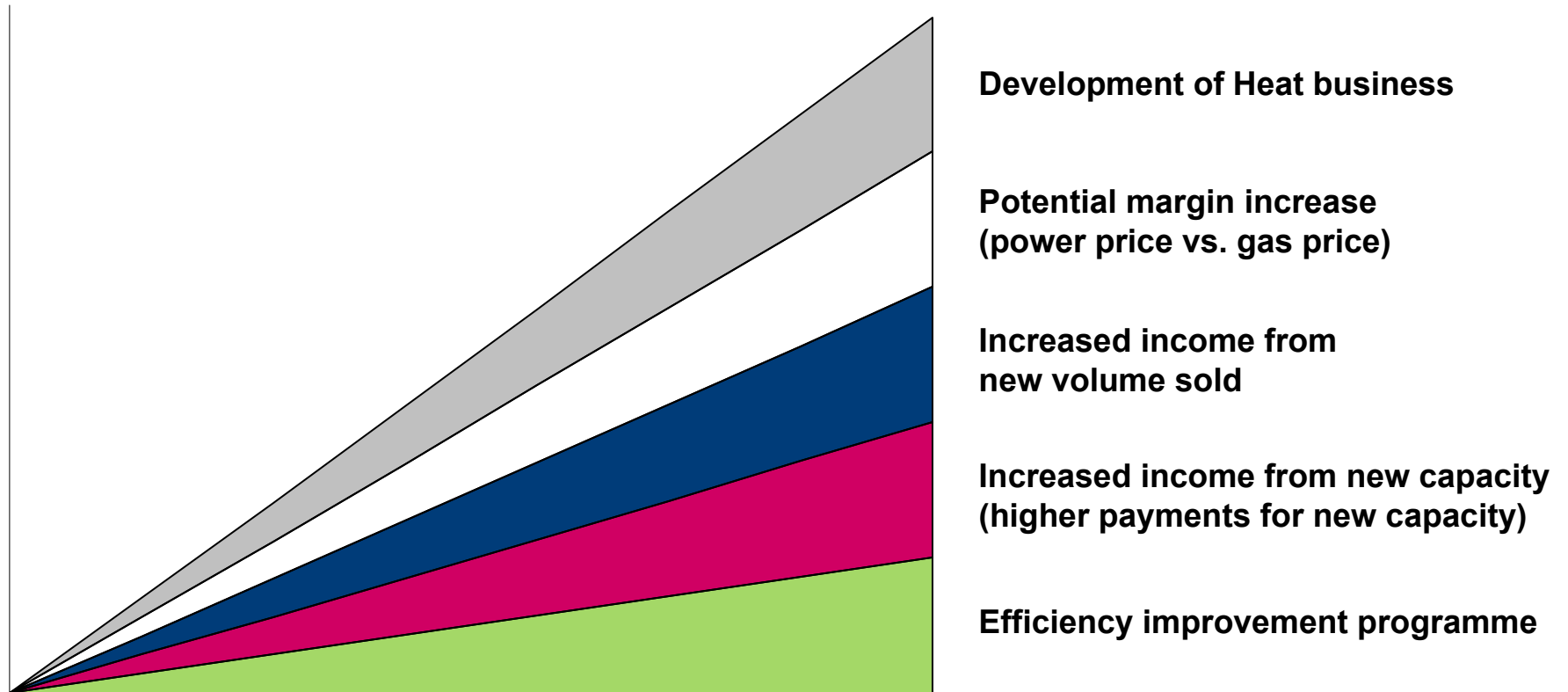
\* Based on realised, disclosed power revenues and volumes; disclosed power and capacity prices

# Efficiency improvement programme on track in Russia: ~100 MEUR EBIT effect in 2011

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

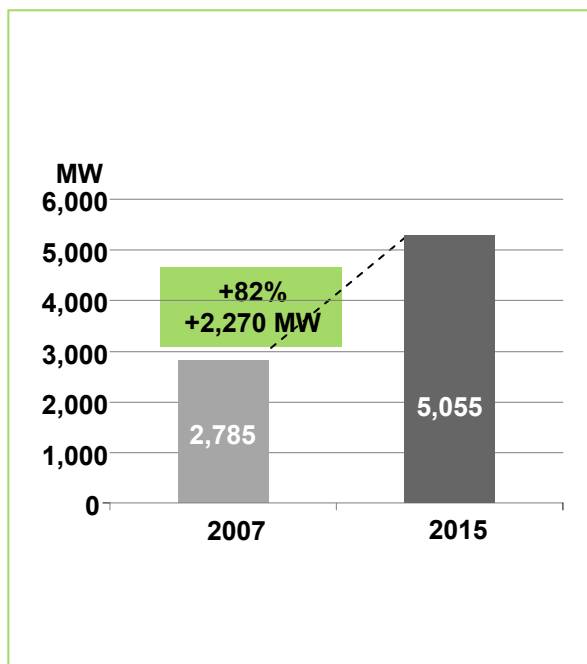
- The programme started in April 2008
- After two years, on track – about halfway towards the goal

# Improvement through all key earnings drivers targeted




New capacity and volume through investment programme;  
appr. 2,270 MW new capacity

# Over 80% increase in power generation capacity by 2015 through the investment programme



Plant	Fuel type	Power generation capacity (MW)		Total
		Existing	Planned	
Tyumen CHP-2	Gas	755	450 (Condensing)	1,205
Tyumen CHP-1, Q3/2010	Gas	472	190 (CHP/Condensing)	662
Tobolsk CHP, Q4/2010	Gas	452	210 (Condensing)	662
Chelyabinsk CHP-3, Q4/2010	Gas	360	220 (CHP/Condensing)	580
Chelyabinsk CHP-2	Coal, gas	320		320
Argayash CHP	Coal, gas	195		195
Chelyabinsk CHP-1	Coal, gas	149		149
Chelyabinsk GRES	Gas	82		82
Nyagan GRES	Gas		3x400 (Condensing)	1,200
Boilers	-			
<b>Total</b>		<b>2,785</b>	<b>2,270</b>	<b>5,055</b>



Fortum today

European power markets

Russia

Financials and outlook

# Income statement

MEUR	II/2010	II/2009	I-II/2010	I-II/2009	2009	LTM
Sales	1 295	1 194	3 242	2 826	5 435	5 851
Expenses	-944	-819	-2 167	-1 852	-3 653	-3 968
<b>Operating profit</b>	<b>351</b>	<b>375</b>	<b>1 075</b>	<b>974</b>	<b>1 782</b>	<b>1 883</b>
Share of profit of associates and jv's	15	29	31	-4	21	56
Financial expenses, net	-34	-49	-61	-81	-167	-147
<b>Profit before taxes</b>	<b>332</b>	<b>355</b>	<b>1 045</b>	<b>889</b>	<b>1 636</b>	<b>1 792</b>
Income tax expense	-61	-61	-191	-172	-285	-304
<b>Net profit for the period</b>	<b>271</b>	<b>294</b>	<b>854</b>	<b>717</b>	<b>1 351</b>	<b>1 488</b>
Non-controlling interests	8	5	32	22	39	49
EPS, basic (EUR)	0.30	0.32	0.93	0.78	1.48	1.62
EPS, diluted (EUR)	0.30	0.32	0.93	0.78	1.48	1.62

# Comparable and reported operating profit

	Comparable operating profit		Reported operating profit		Comparable operating profit		Reported operating profit	
	II/2010	II/2009	II/2010	II/2009	I-II/2010	I-II/2009	I-II/2010	I-II/2009
Power	271	340	280	307	695	755	747	739
Heat	33	26	35	39	165	140	194	154
Distribution	53	54	53	54	155	135	166	135
Electricity Sales	10	6	23	20	-3	4	-6	-1
Russia	-9	-14	-9	-15	7	-8	23	-9
Other	-19	-12	-31	-30	-29	-24	-49	-44
<b>Total</b>	<b>339</b>	<b>400</b>	<b>351</b>	<b>375</b>	<b>990</b>	<b>1 002</b>	<b>1 075</b>	<b>974</b>

# Cash flow statement

MEUR	II/2010	II/2009	I-II/2010	I-II/2009	2009	LTM
<b>Operating profit before depreciations</b>	490	499	1 351	1 220	2 292	2 423
Non-cash flow items and divesting activities	-6	18	-73	19	46	-46
Financial items and fx gains/losses	-146	160	-323	299	146	-476
Taxes	-73	-117	-155	-131	-239	-263
<b>Funds from operations (FFO)</b>	<b>265</b>	<b>560</b>	<b>800</b>	<b>1 407</b>	<b>2 245</b>	<b>1 638</b>
Change in working capital	157	144	143	119	19	43
<b>Total net cash from operating activities</b>	<b>422</b>	<b>704</b>	<b>943</b>	<b>1 526</b>	<b>2 264</b>	<b>1 681</b>
Paid capital expenditures	-263	-171	-486	-351	-845	-980
Acquisition of shares	-1	-3	-1	-53	-85	-33
Other investing activities	-16	-3	72	-10	-44	39
<b>Cash flow before financing activities</b>	<b>142</b>	<b>527</b>	<b>528</b>	<b>1 112</b>	<b>1 290</b>	<b>707</b>

# Current Fortum Group financial targets

• Return on capital employed 12%

• Return on shareholder's equity 14%

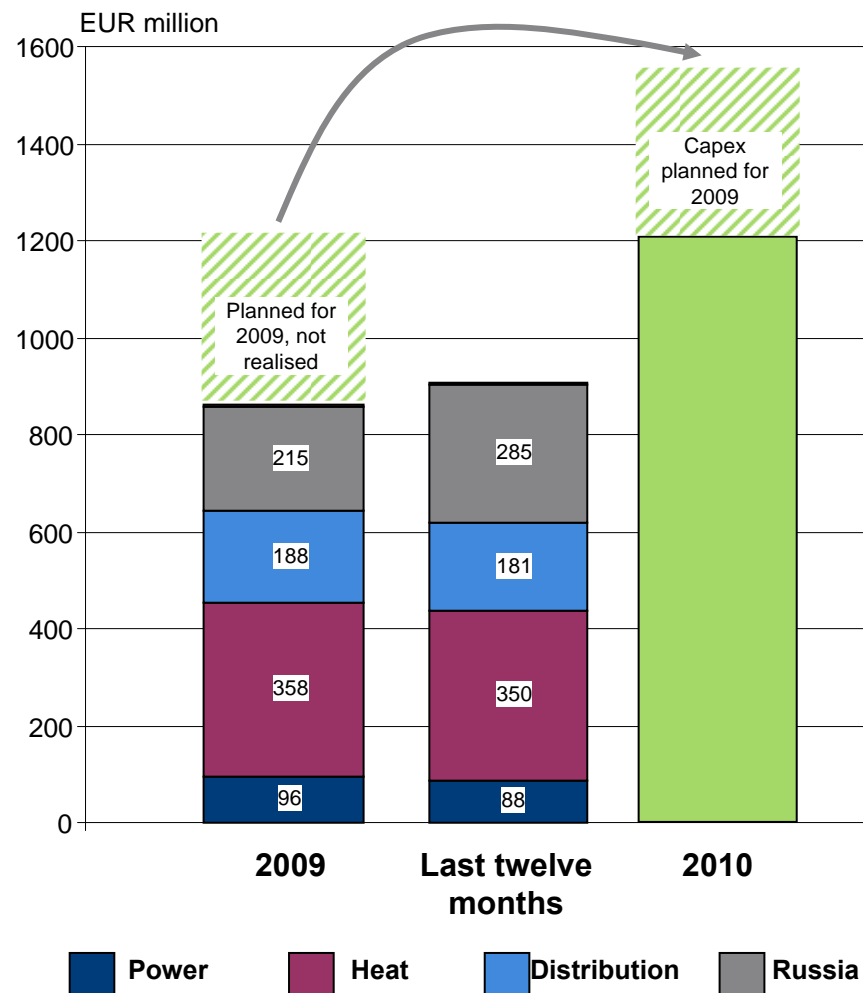
• Net debt/EBITDA 3.0–3.5

# Key ratios

<b>MEUR</b>	<b>LTM</b> in Q2 '10	<b>LTM</b> in Q1 '10	<b>2009</b>
EBITDA	2 423	2 432	2 292
Net cash flow from operations	1 681	1 963	2 264
Interest-bearing net debt	6 506	5 679	5 969
Equity	8 662	8 465	8 491
Balance sheet total	20 606	21 318	19 841
Net debt/EBITDA	2.7	2.3	2.6
Return on capital employed (%)	12.8	12.3	12.1
Return on shareholders' equity (%)	18.0	17.6	16.0

# Capital expenditures, 2010 vs. 2009

- Original plan and guidance:
  - EUR 0.8-1.2 billion for the next 4-5 years
  - 2009 and 2010 likely to be closer to the upper end of the range
- 2009 capex was EUR 862 million
- 2010 capex is expected to exceed the original EUR 1.2 billion upper end of the capex range being approximately EUR 1.5 billion
  - Capex shifting from 2009



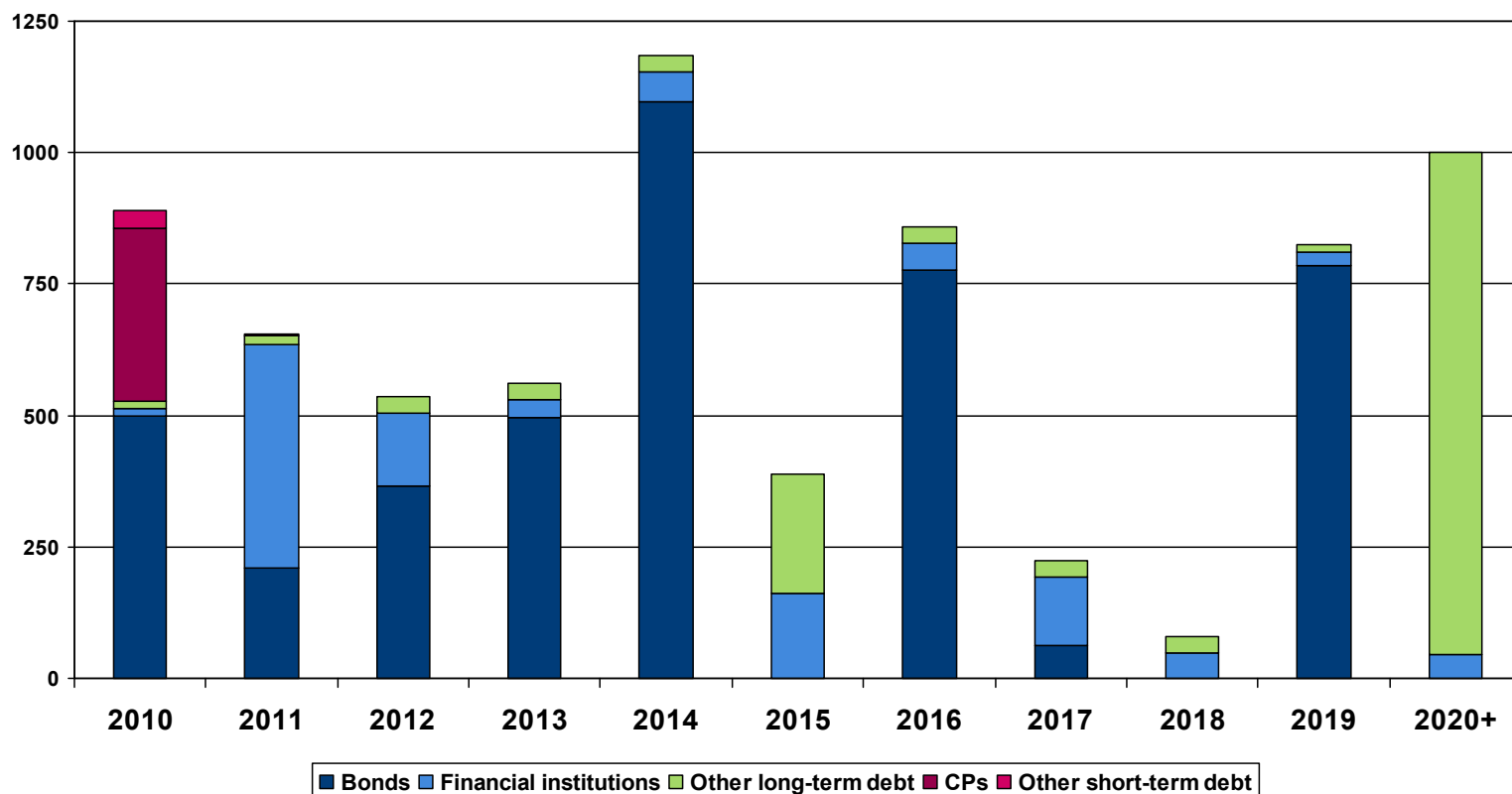
# Capital expenditures post 2010

- Annual capital expenditures EUR 0.8-1.2 billion
- Maintenance/productivity EUR 300–500 million p.a.
- Growth in Nordic and Baltic rim countries EUR 200-400 million p.a.
- Investments in Russian growth on average EUR 300 million per annum – but more in near future

## Estimated annual Capex 2011-2013

Maintenance	~ EUR 300–500 m
Growth	~ EUR 200–400 m
Russian growth	~ EUR 300 m

# Debt maturity profile



	<u>MEUR</u>
2010	891
2011	653
2012	537
2013	562
2014	1.185
2015	388
2016	858
2017	223
2018	79
2019	826
2020+	998

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 %

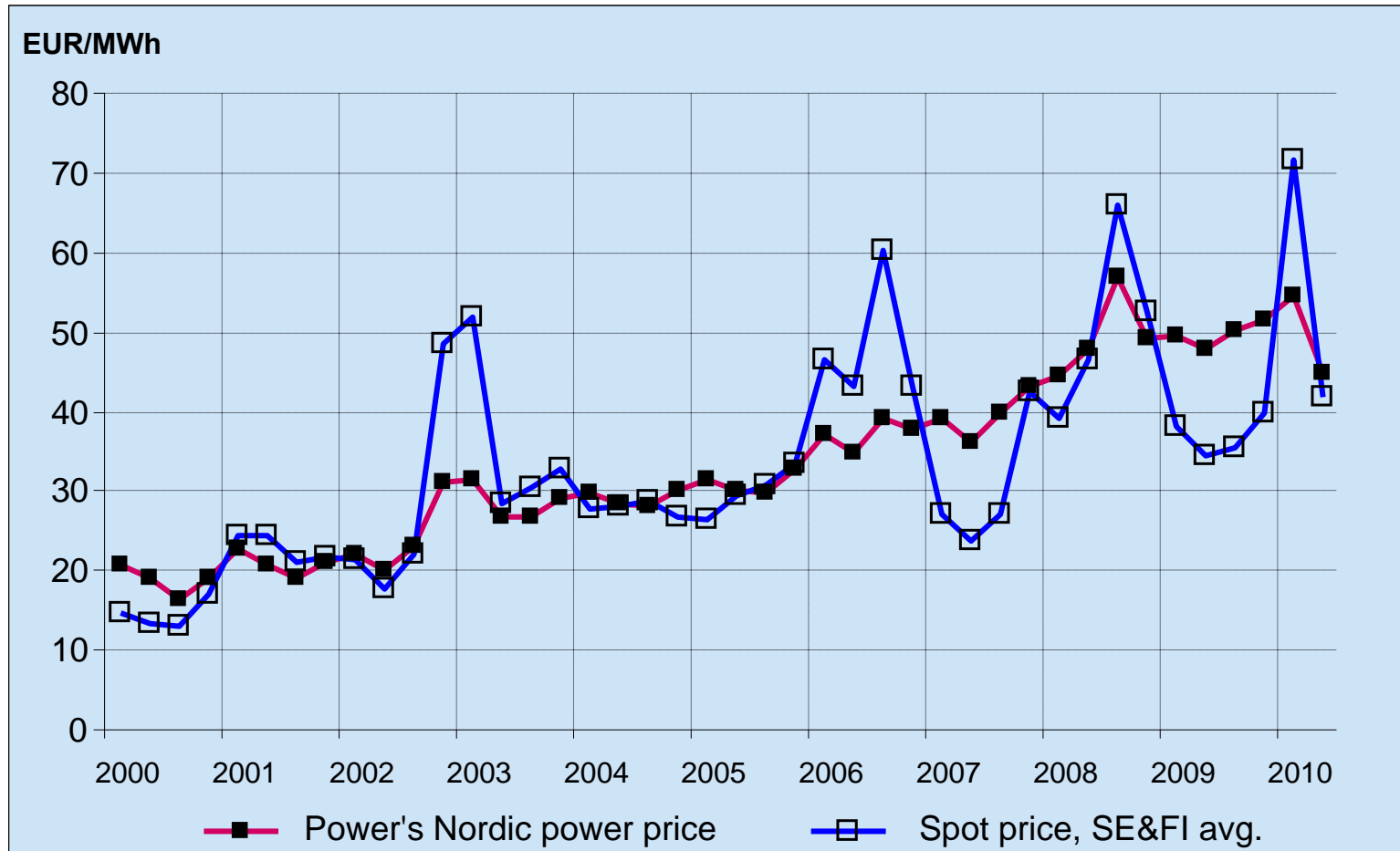
68 / 32 %

62 / 38 %

# Liquidity at the end of Q2/2010

MEUR	Available	Outstanding	Total amount
<b><u>SHORT TERM FINANCING</u></b>			
<b>Commercial Paper Programmes</b>			
<i>Finnish CP Programme</i>	431	69	500
<i>SEK 5.000 M Swedish CP Programme</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>	300		
<i>Bank Deposits over 3 months</i>	394		
	<b>694</b>		
<i>of which in Russia</i>	479		
<b>Total Available Cash and Committed Financing</b>	<b>3 609</b>		

# Hedging improves stability and predictability



# Hedging of Power Division's Nordic sales

## Status at the end of June 2010

(Status at the end of March 2010)

	<u>Hedge ratio</u>	<u>Hedge price</u>
rest of 2010	~ 80% (~75%)	~ EUR 44 per MWh (~ EUR 44 per MWh)
2011	~ 60% (~45%)	~ EUR 44 per MWh (~ EUR 43 per MWh)

# A strong platform for future

- The market driven production company – growing in Power, #4 in Heat globally
- The fundamental drivers for the European power markets still in place: the need for new capacity, market integration, CO<sub>2</sub> mitigation
- Carbon exposure among the lowest among European power utilities
- Significant growth in Russia through the investment and efficiency improvement programmes
- Efficiency, accountability and simplicity – the new organisation with new potential
- Strong financial performance and financial headroom



 **Fortum**