

FORTUM

A leading power and heat company
in the Nordic area

Investor/Analyst material

May 2010

Disclaimer

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



Content

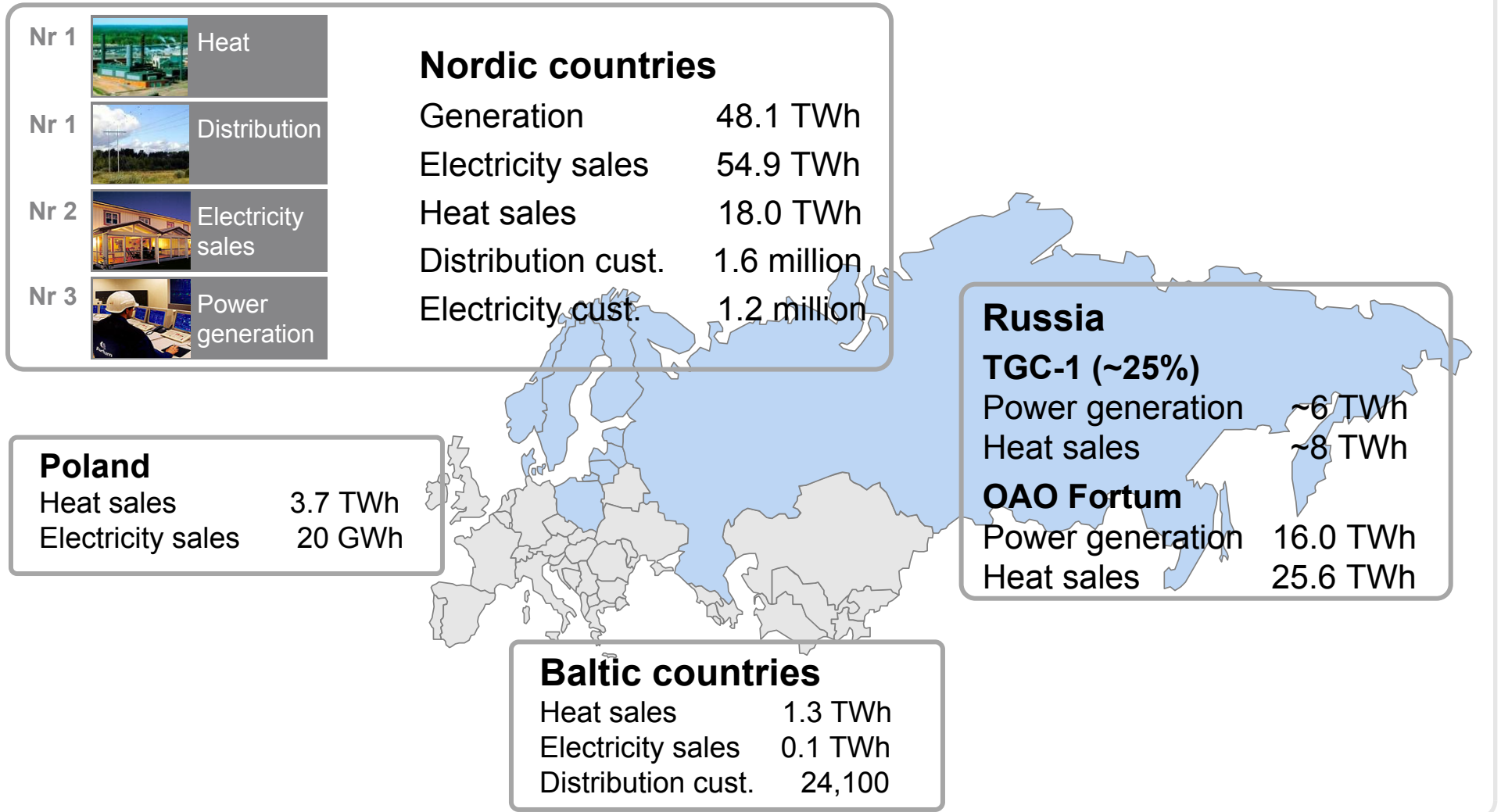
Fortum today

European power markets

Russia

Financials and outlook

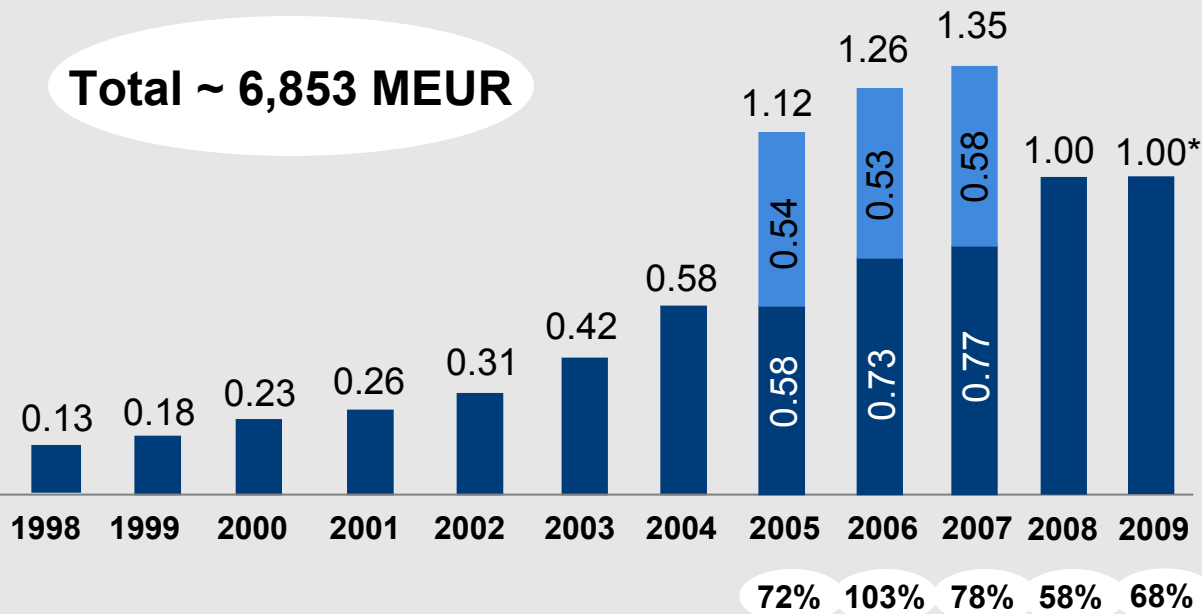
Our geographical presence today



Capital returns

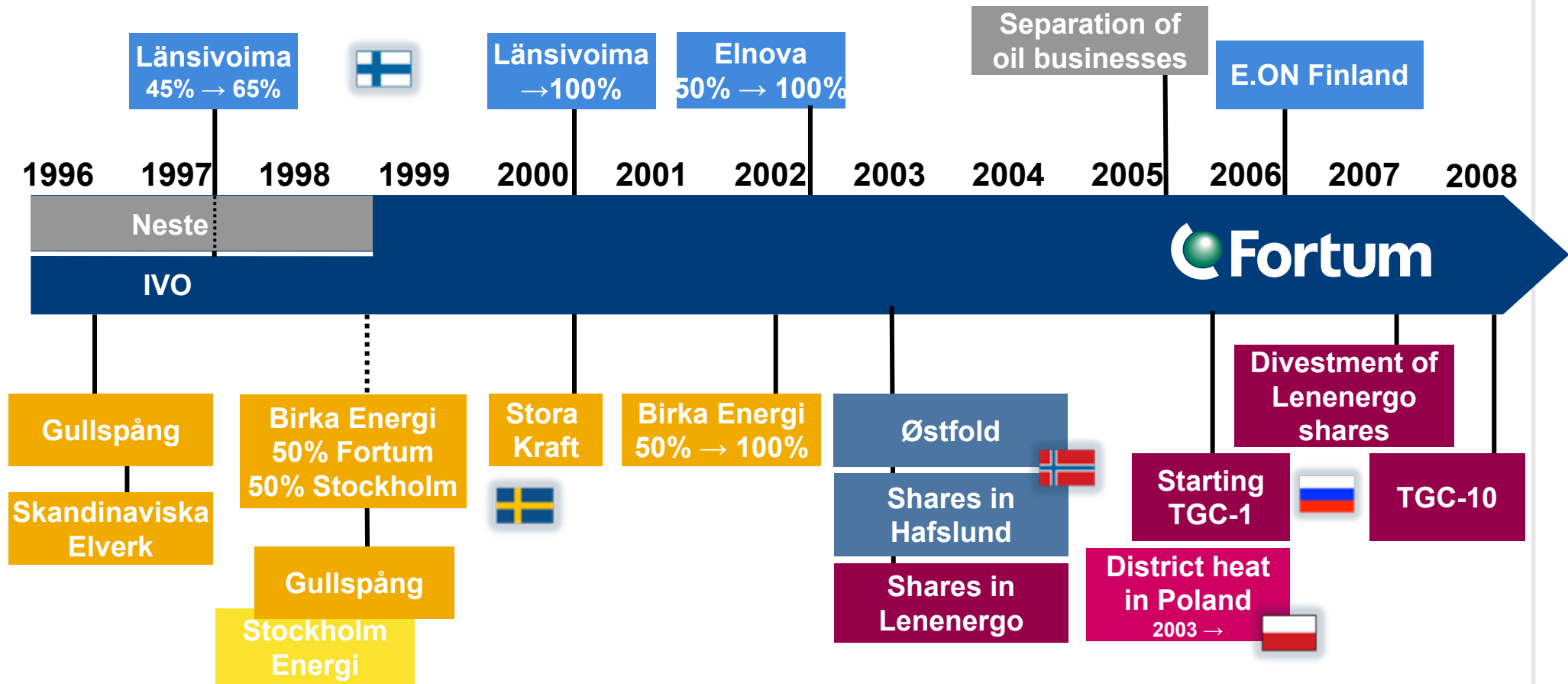
Dividend per share
EUR

Total ~ 6,853 MEUR

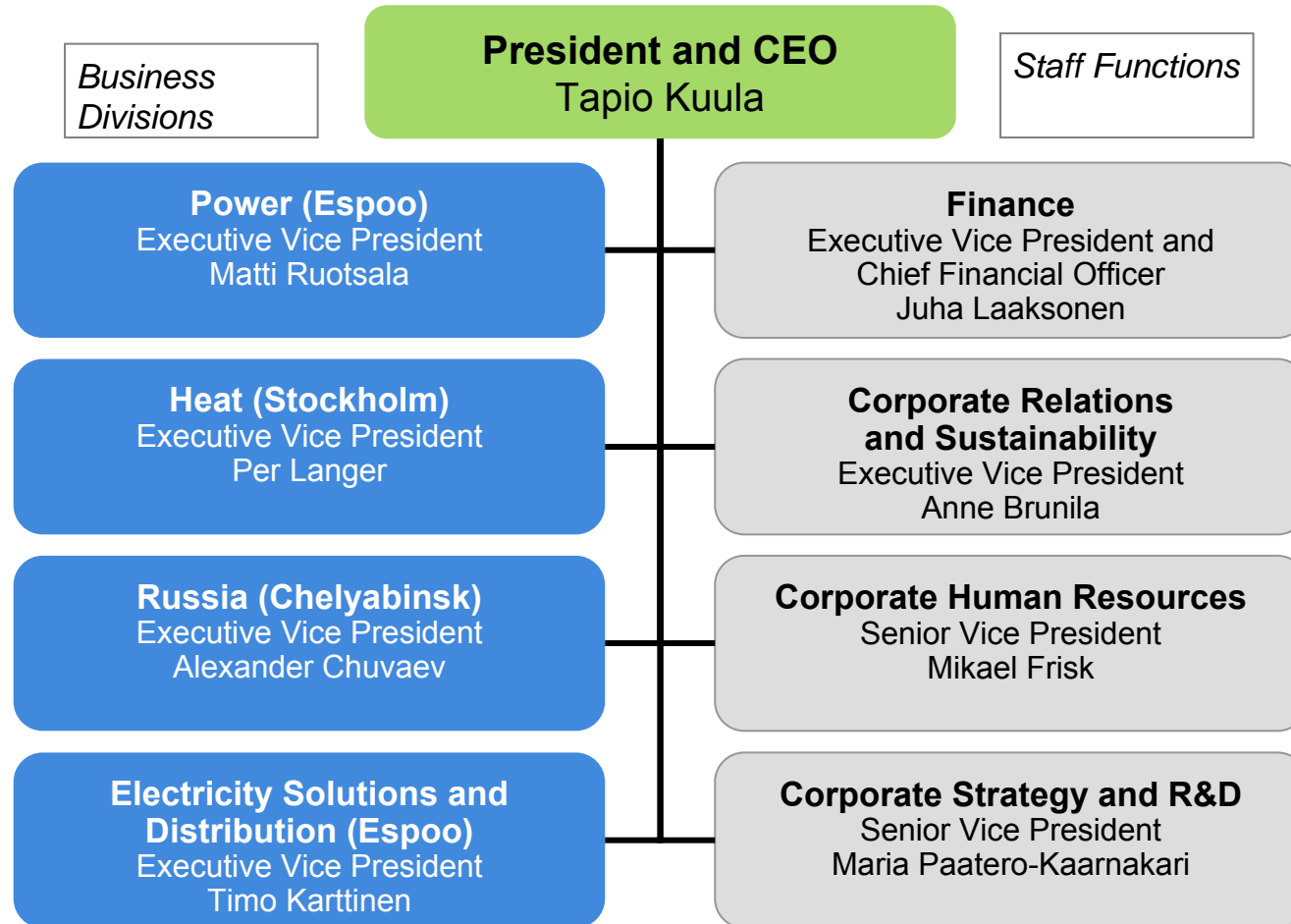


- Dividend 2009 EUR 1.00 per share, in total ~EUR 0.9 billion
- Dividend policy of 50-60% payout of previous year's results on the average

Fortum's strategic route



Organisational structure as of 1 October 2009

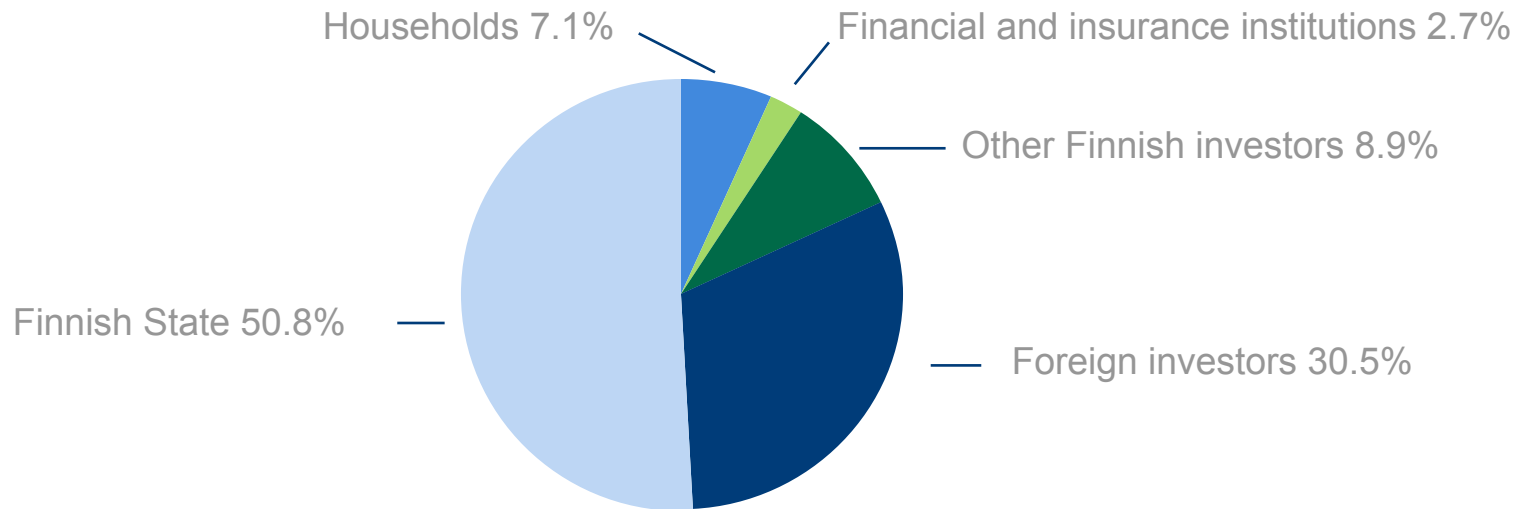


Country responsables: Timo Karttinen / Finland, Norway; Per Langer / Sweden, Poland, Baltics; Alexander Chuvaev / Russia

Improved efficiency, accountability, simplicity

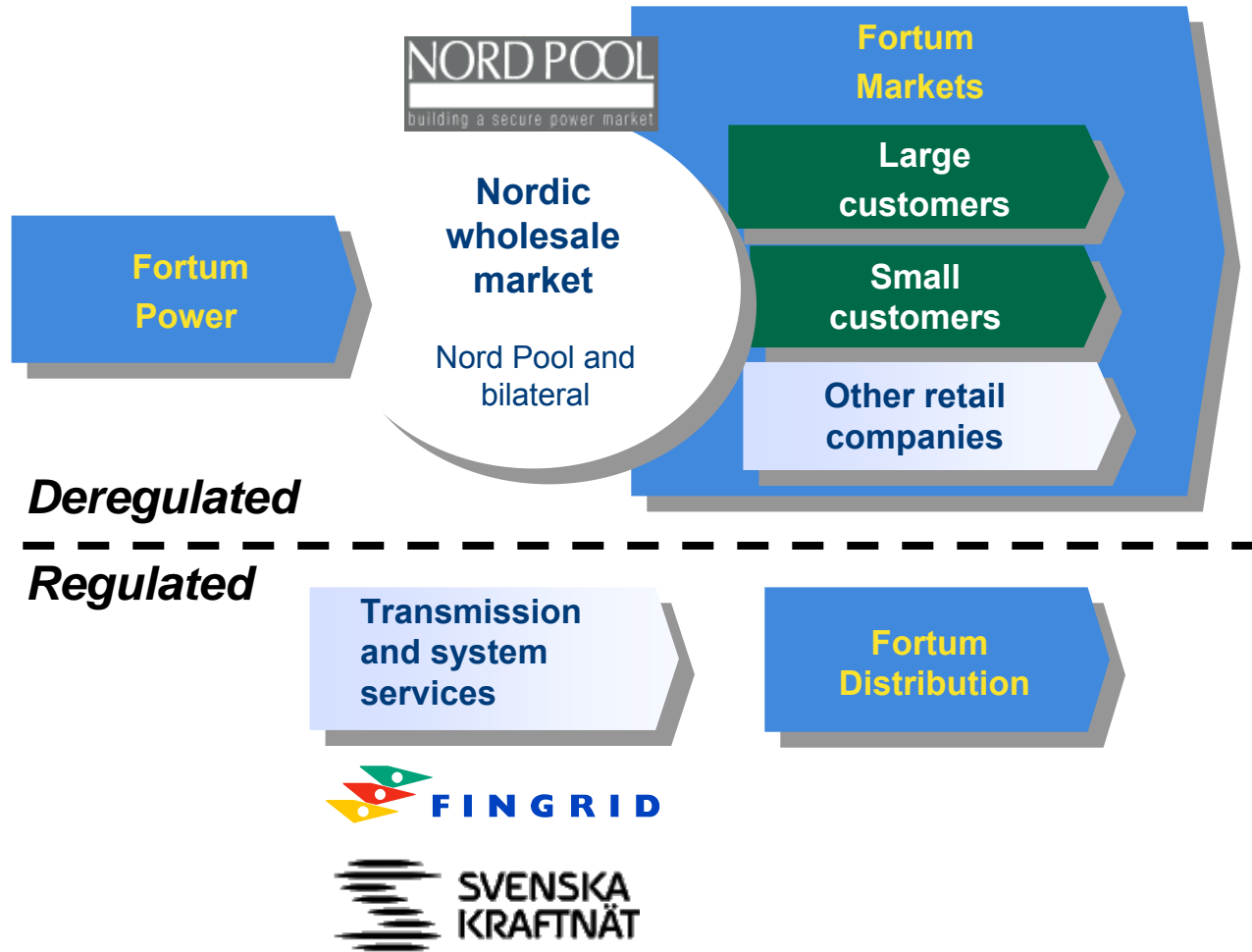
A leading Nordic power and heat company

- Leading power and heat company in Nordic countries
- Listed at the Helsinki Stock Exchange 1998
- Approximately 90,000 shareholders
- Among the most traded shares in Helsinki stock exchange
- Market cap ~17 billion euros



28 February 2010

Fortum in the Nordic electricity value chain

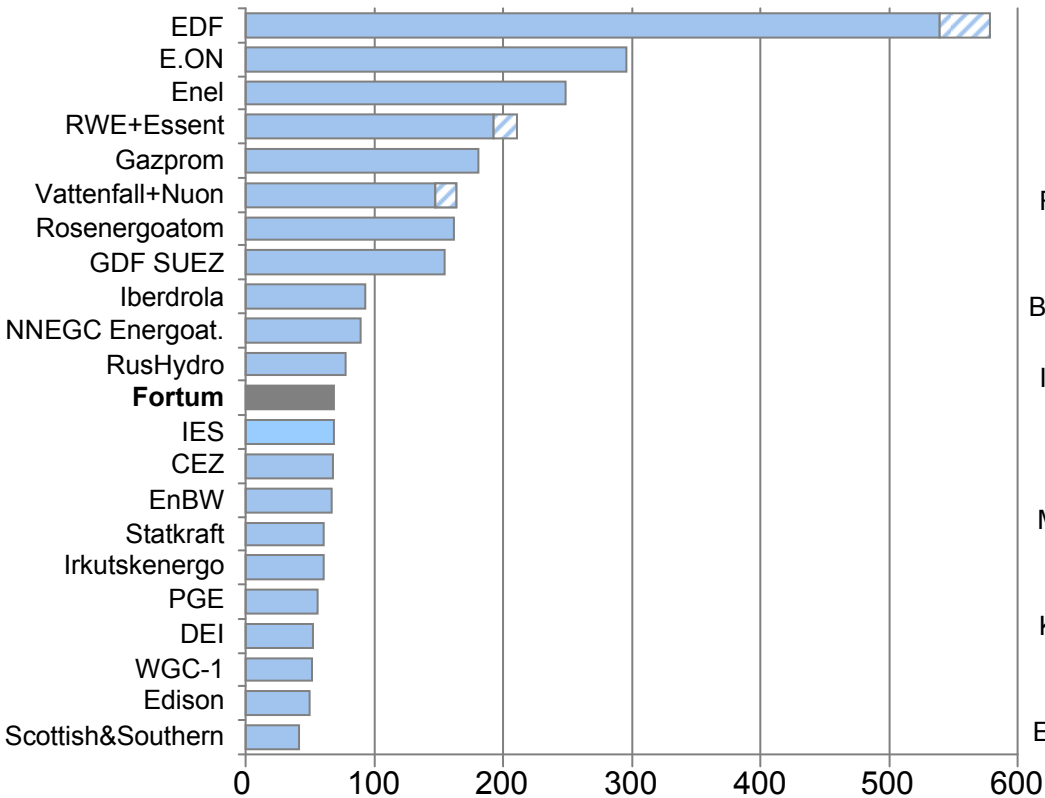


Fortum mid-sized European power generation player, Global #4 in heat

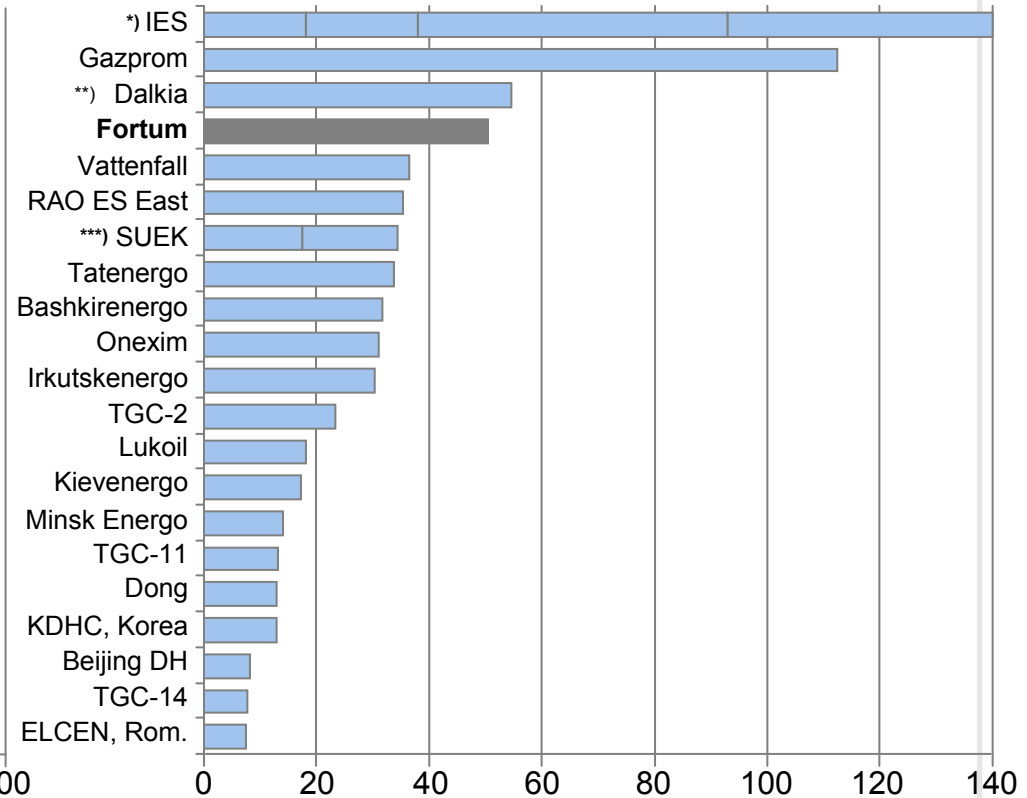
Power generation

Heat production

Largest producers in Europe and Russia, 2008 TWh



Largest global producers, 2008 TWh

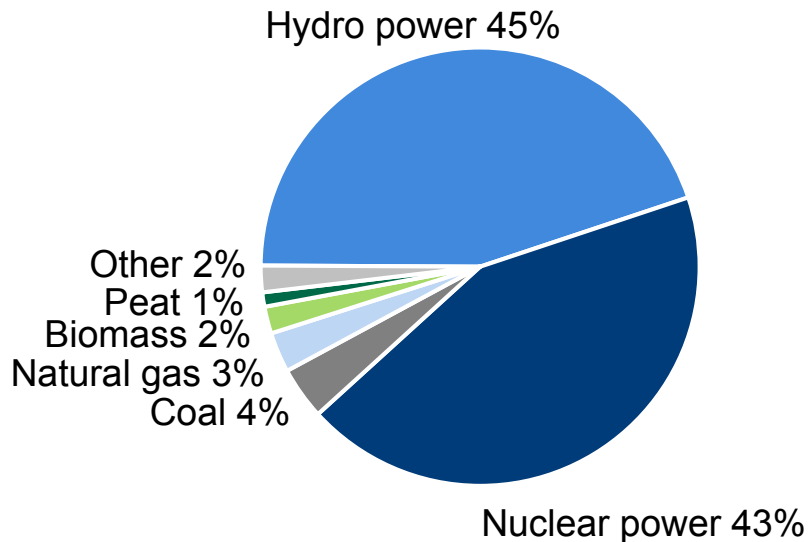


* incl. TGC-5, TGC-6, TGC-7, TGC-9, *** incl. TGC-12, TGC-13

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

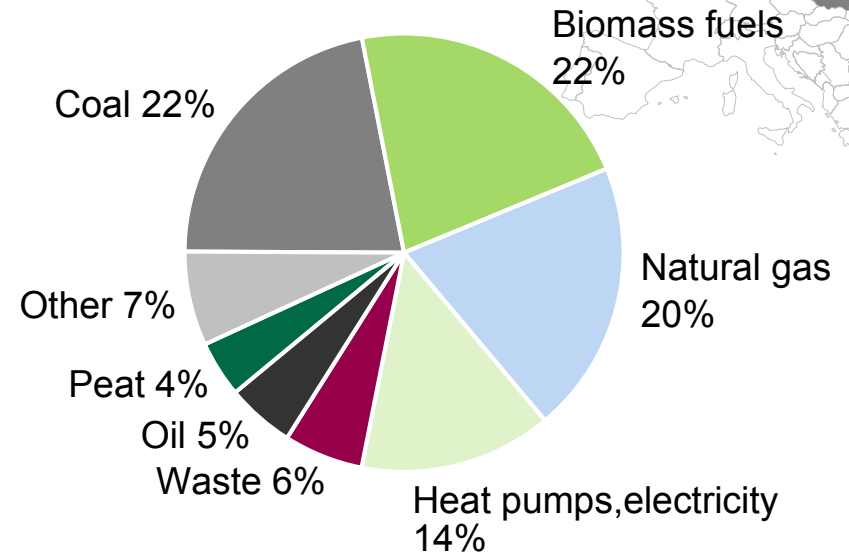
Fortum's European power and heat production

Fortum's European power generation in 2009

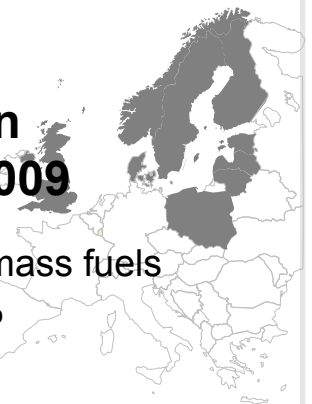


European generation 49.3 TWh
(Generation capacity 11,155 MW)

Fortum's European heat production in 2009

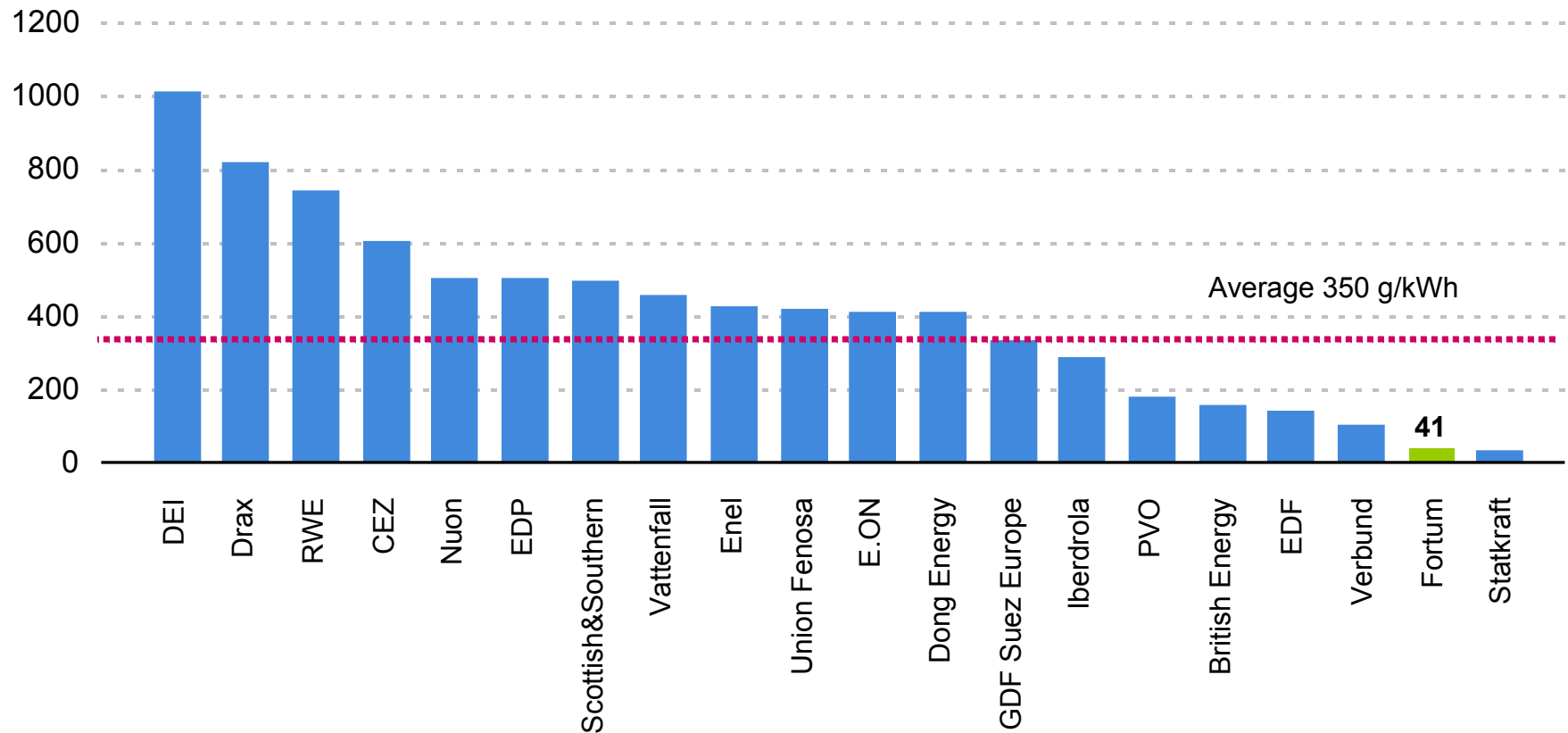


European production 23.2 TWh
(Production capacity 10,534 MW)



Fortum's carbon exposure among the lowest in Europe

g CO₂/kWh electricity, 2008



Source:
PWC & Enerpresse, 2009
Changement climatique et Électricité

Fortum's investment programme

– Nordic region, Poland and Baltic countries

Project	Electricity, MW	Heat, MW	Commissioned
Olkiluoto 3, Finland	400		2012
Swedish nuclear upgrades	260		by 2013
- Forsmark 3 upgrade (to be decided)	30		post 2013
Refurbishing of hydro power	20-30		annually
Częstochowa, 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
Total by ~2013	>900	~300	

Electricity capacity over 900 MW
~95% CO₂-free





Fortum today

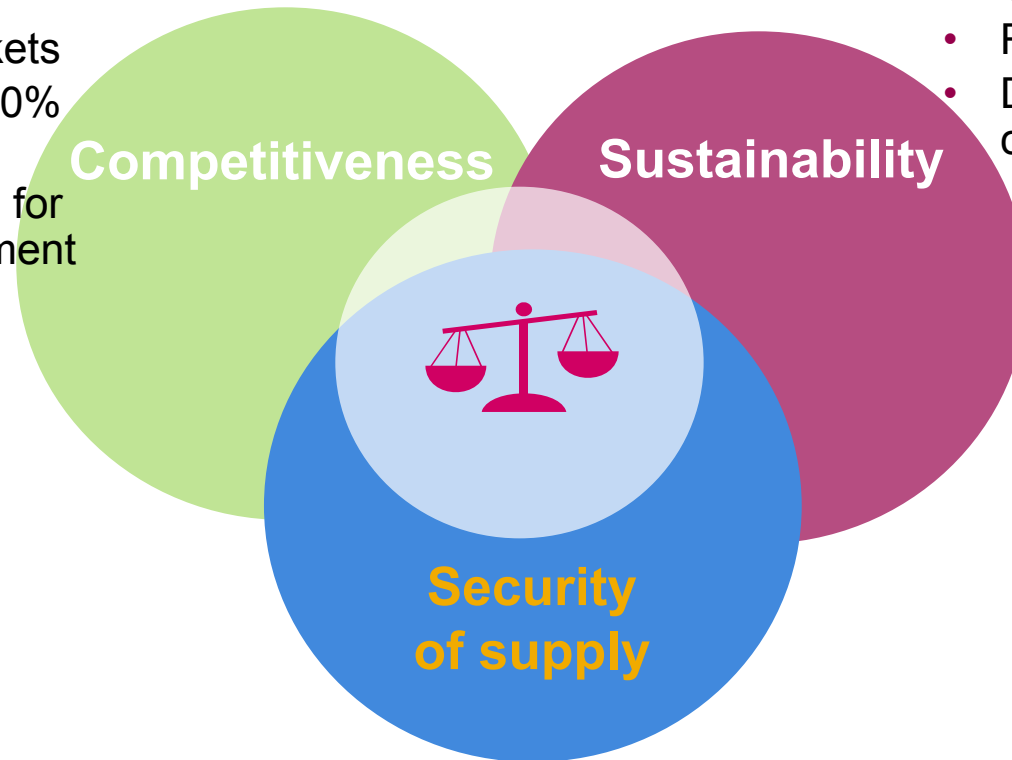
European power markets

Russia

Financials and outlook

Key EU objectives by 2020

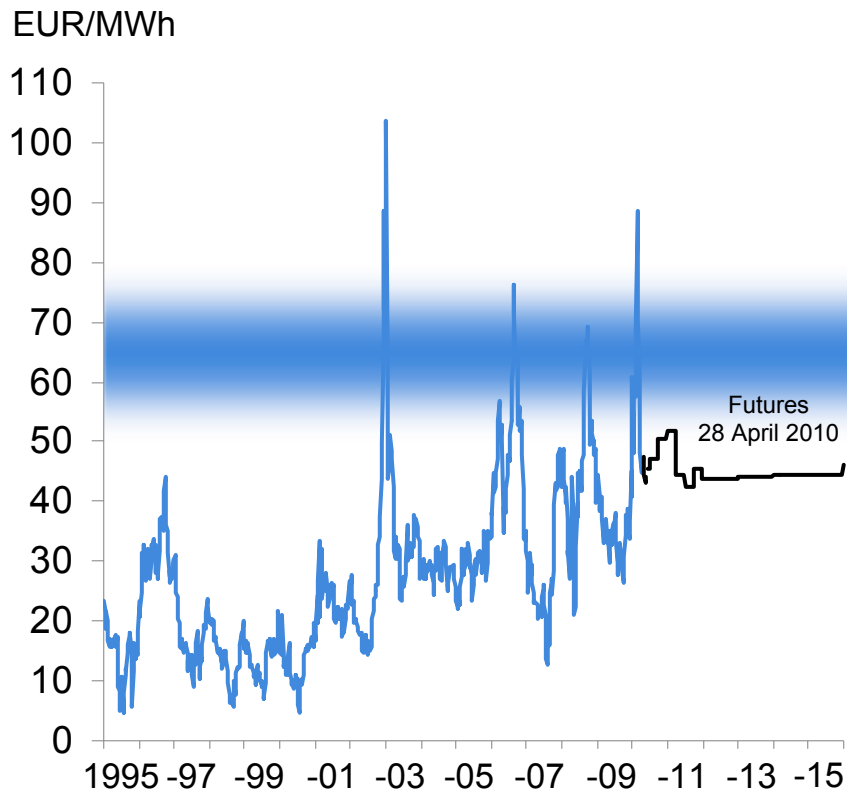
- Implementation of internal energy markets
- Energy efficiency +20% (2020)
- Increased resources for technology development



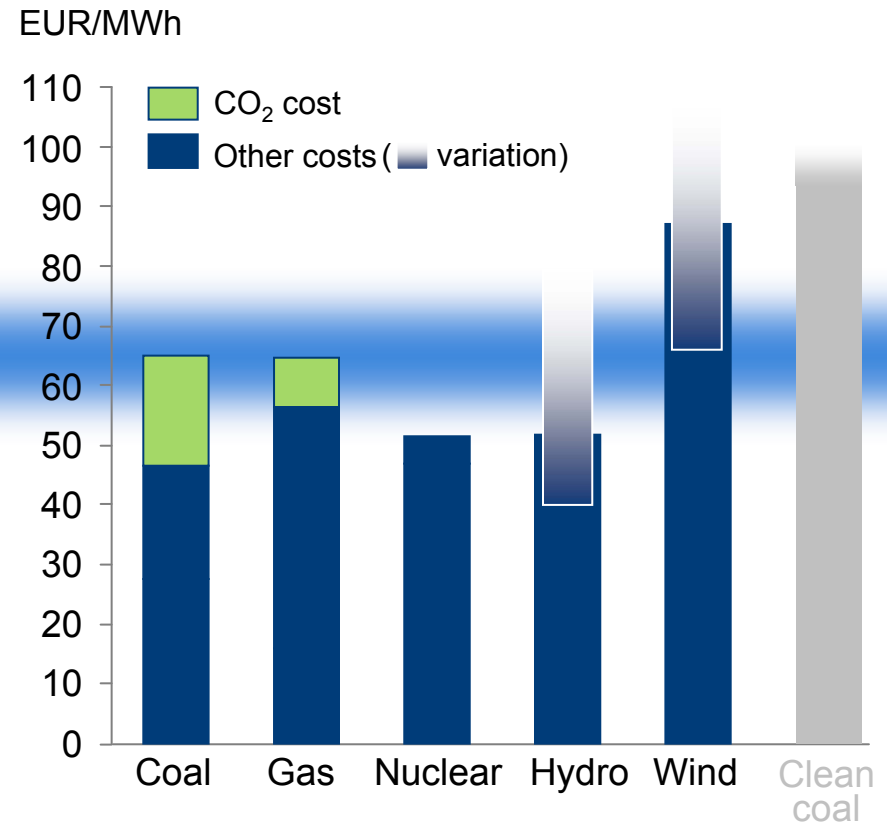
- Minimum reduction of EU CO₂ emissions 20% (2020)
- Renewables 20% (2020)
- Development of CO₂ capture and storage

- 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



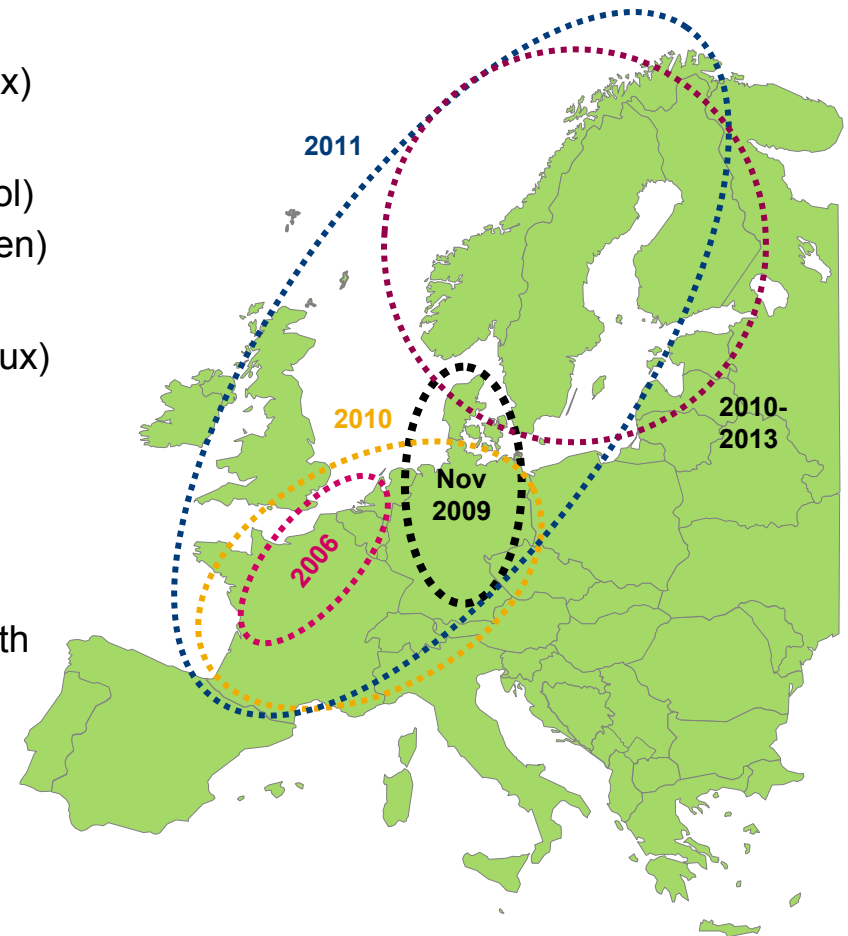
Source: Nord Pool



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

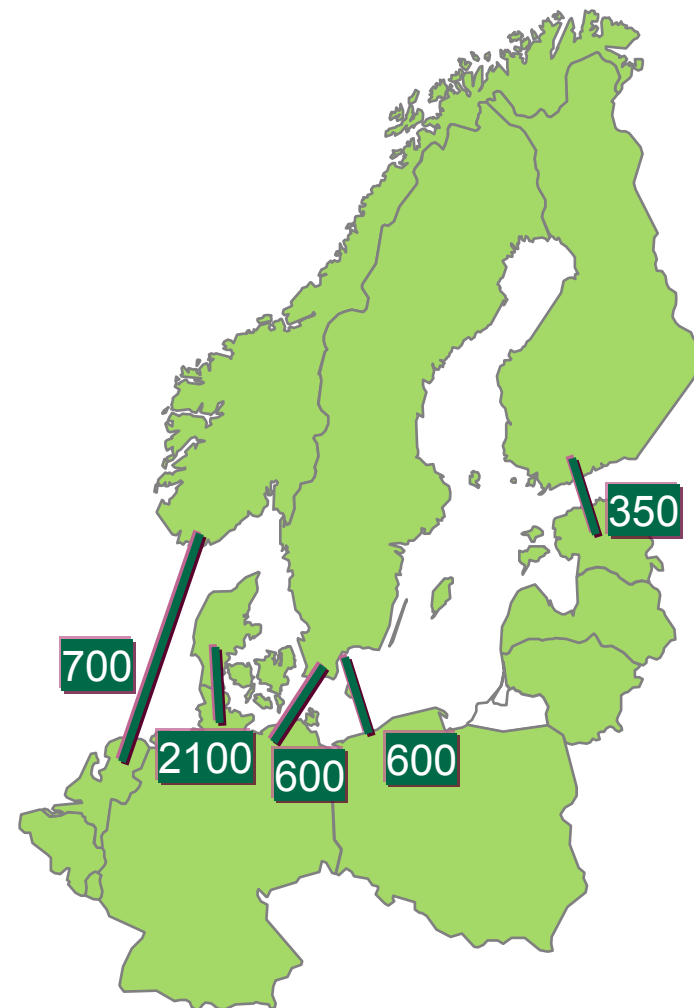
- Market coupling between Netherlands (APX), Belgium (Belpex) and France (Powernext) since 2006
- Market coupling Germany (EPEX Spot) – Denmark (Nord Pool) started on 9 November 2009. Baltic Cable (Germany – Sweden) and NorNed (Norway – NL) will possibly be included later.
- Market coupling for Central Western Europe (DE, FR, BeNeLux) due to start during spring 2010
- CWE and Nordic TSOs agreed in October 2009 to develop a single market coupling mechanism across their whole area
- NL-UK coupling planned through the BritNed cable from 2011
- Estonian price area to Nord Pool to be set up in 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



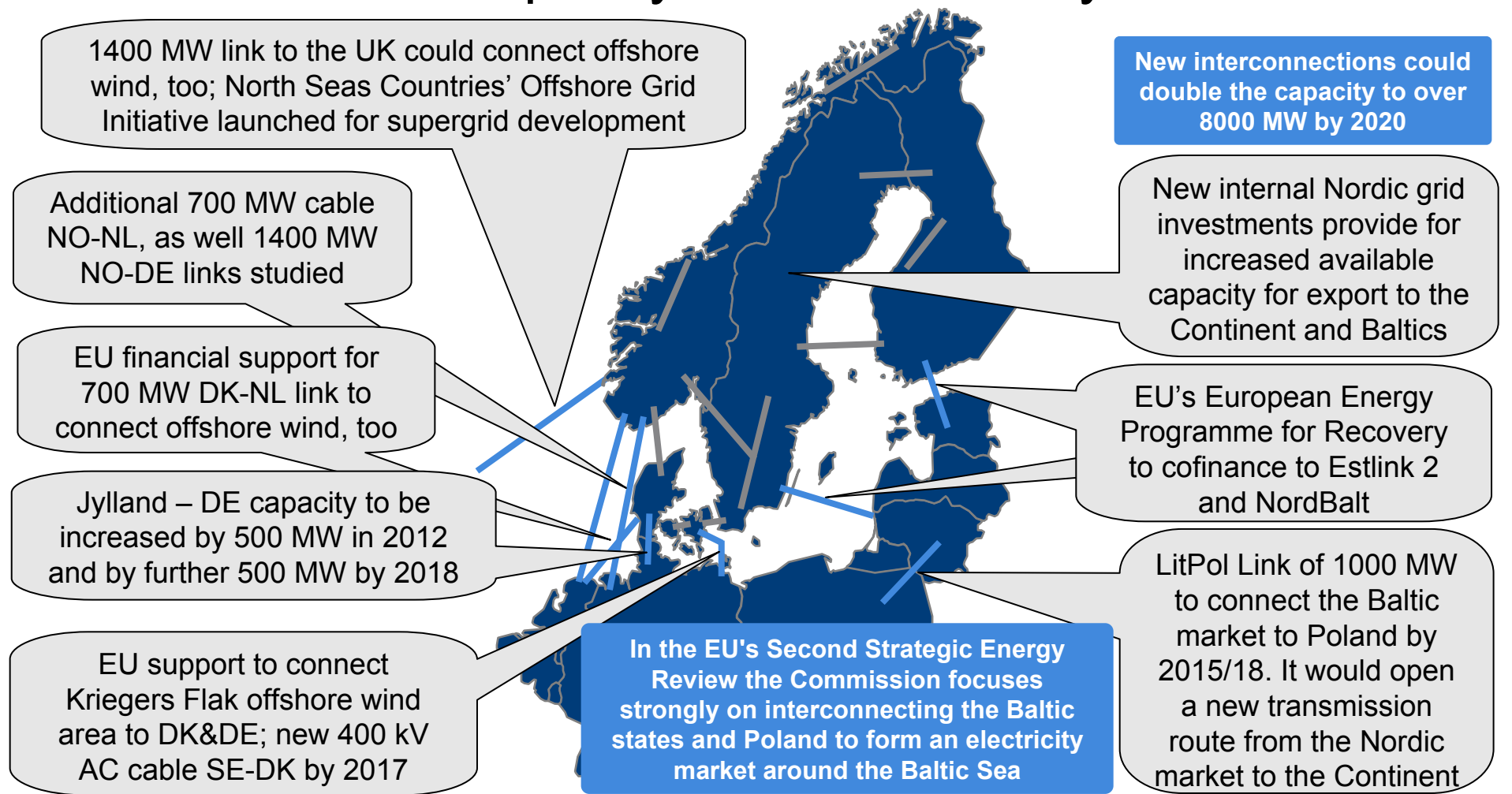
Current transmission capacity from Nordic area to Continental Europe is ~4000 MW

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
Total	4 000	3 450

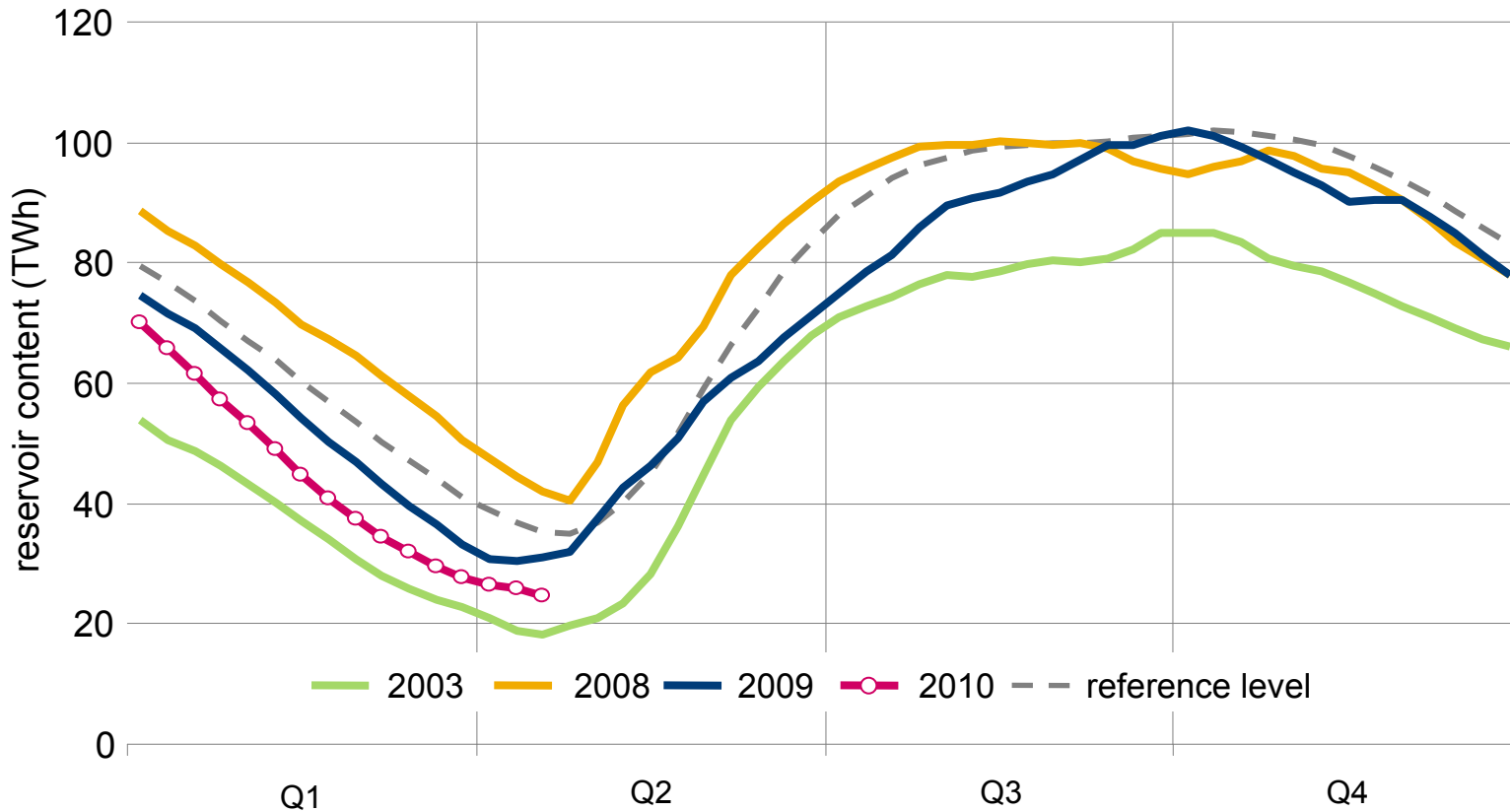
- Theoretical maximum in transmission capacity ~35 TWh per annum
- Net export from Nordic area to Continental Europe in 2008 was ~15 TWh and in 2009 ~5 TWh
- Approximately 20 TWh net export fairly easily reachable



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

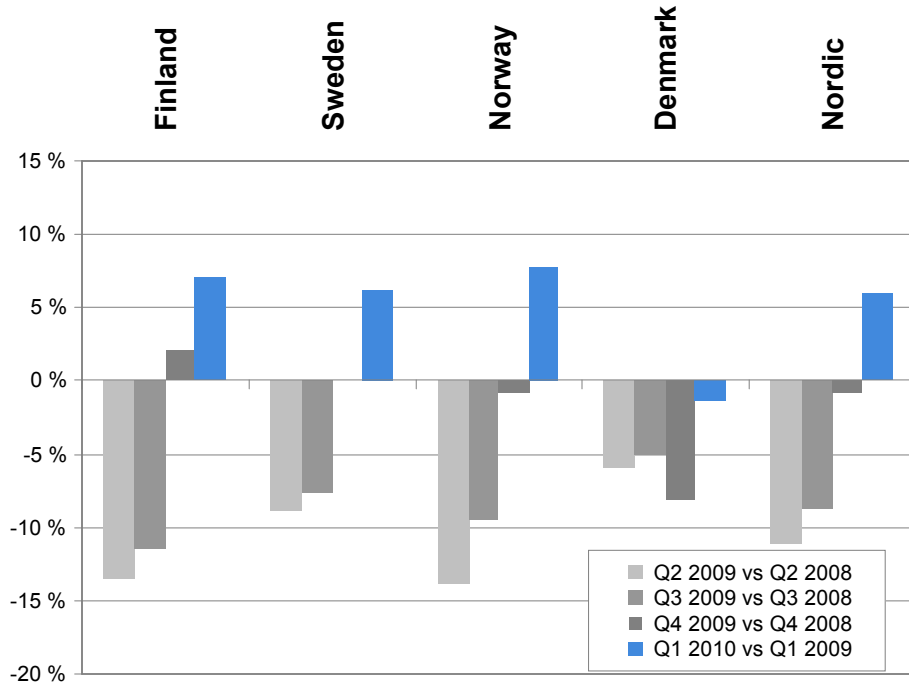


Nordic water reservoirs below normal

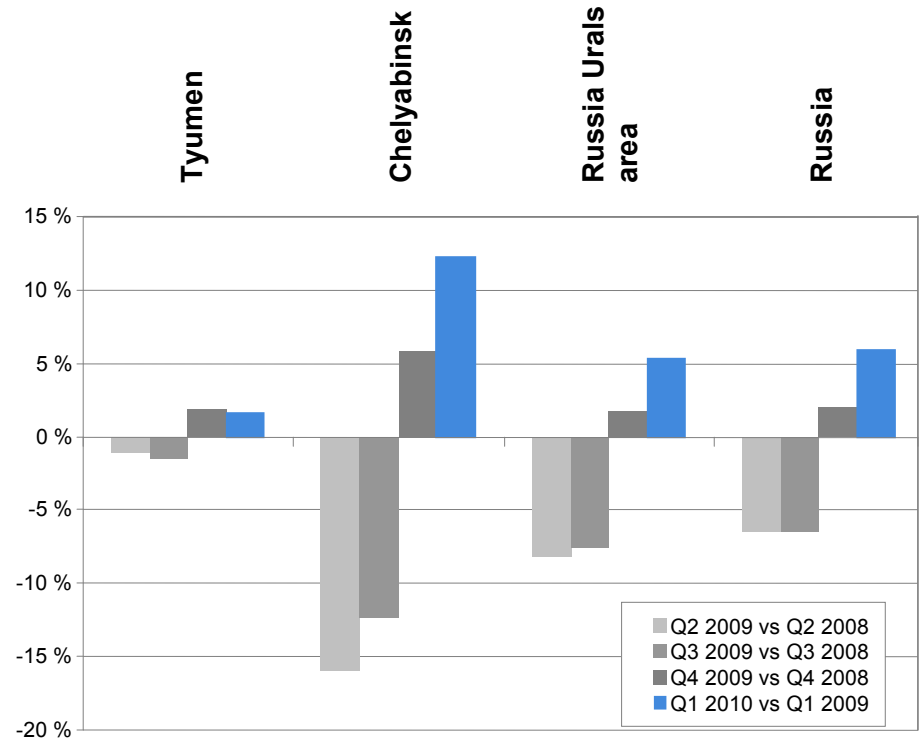


Source: Nord Pool

Demand picking up



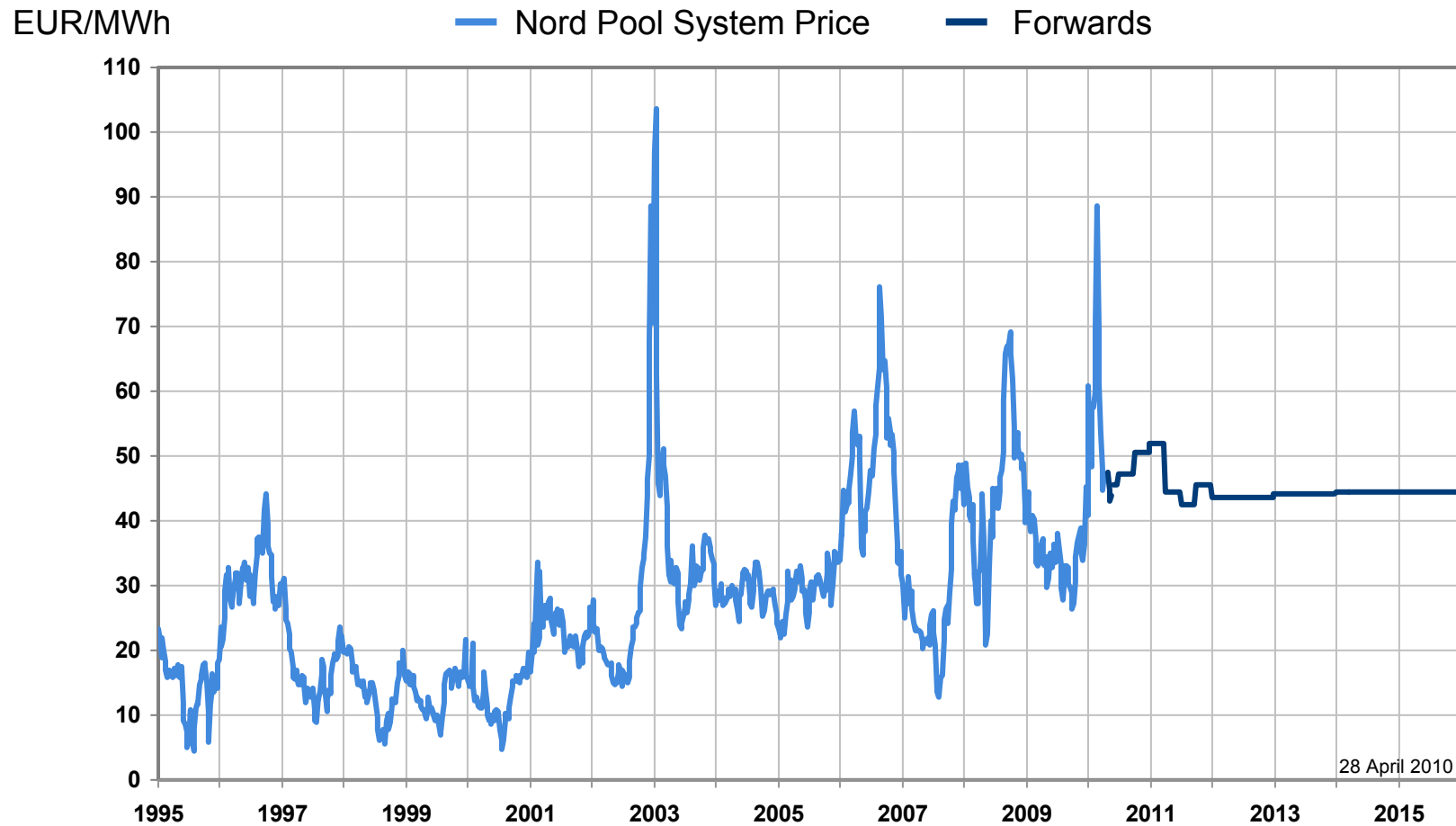
Q1/10 consumption increased +7% in the Nordic area
(Year-on-year)



Q1/10 consumption increased +6% in Russia
(Year-on-year)
Tyumen +2%, Chelyabinsk +13%

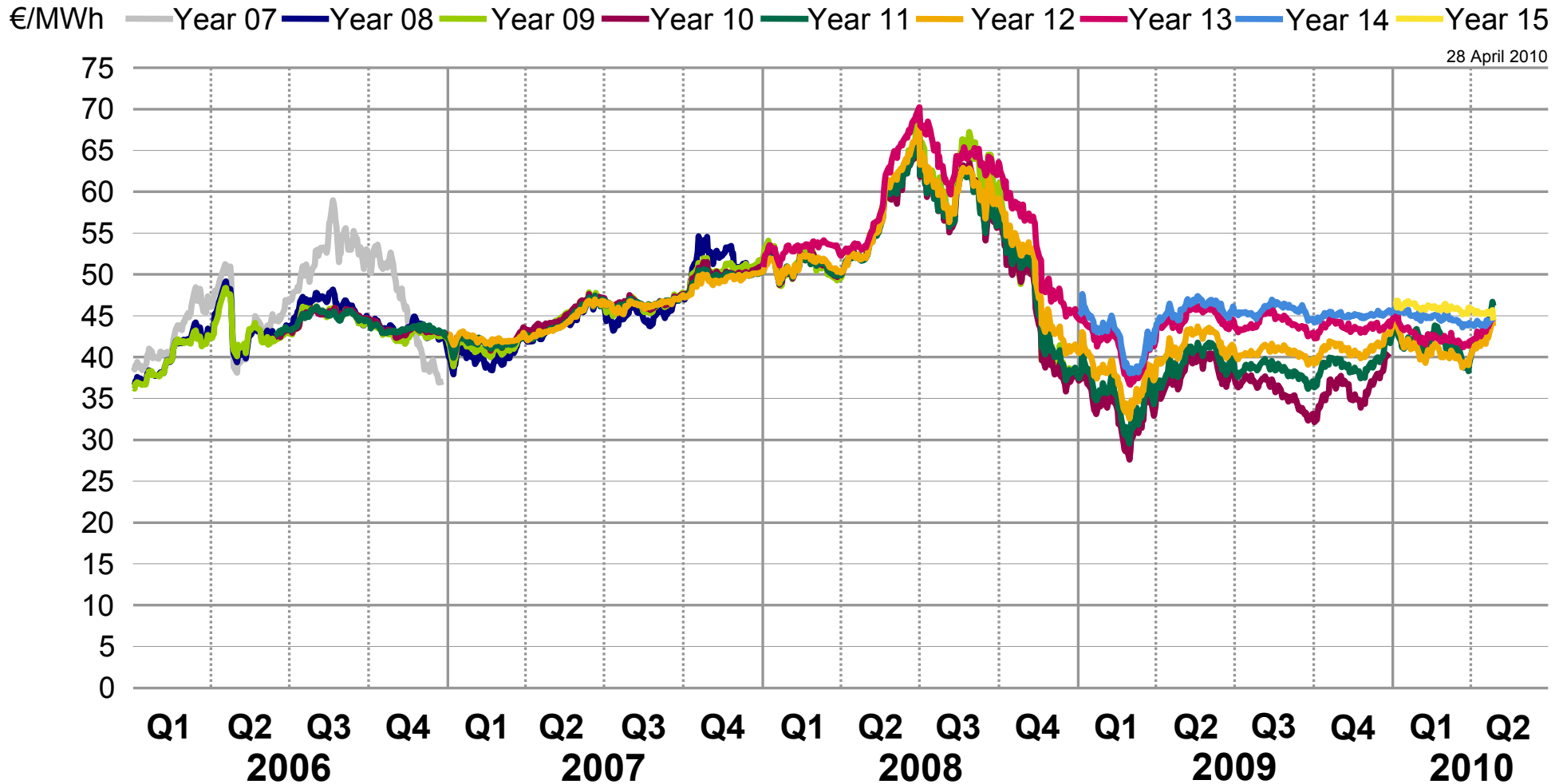
- Fortum currently expects Nordic power demand to recover back to the 2008 level by 2012-2014

Wholesale price for electricity

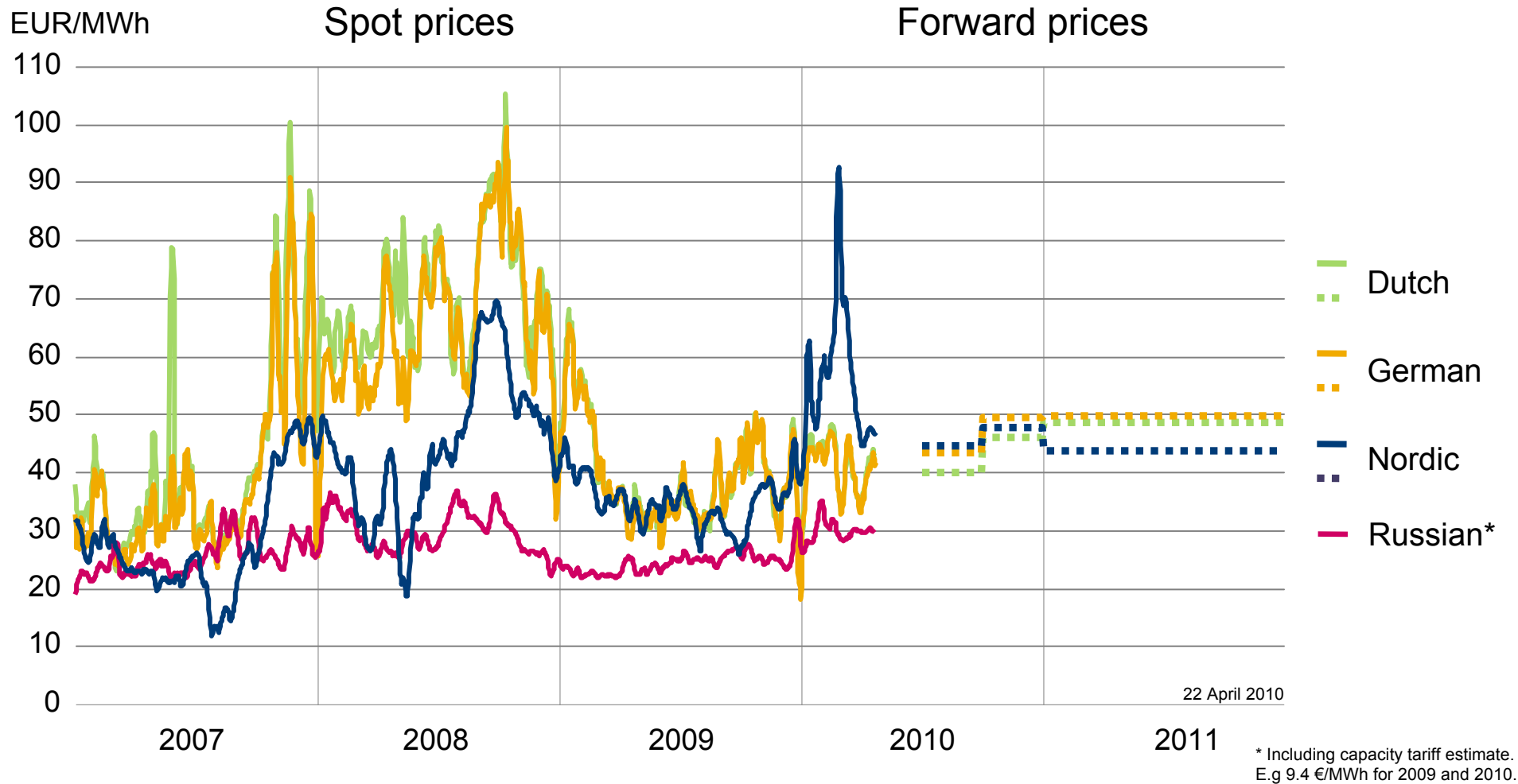


Source: Nord Pool

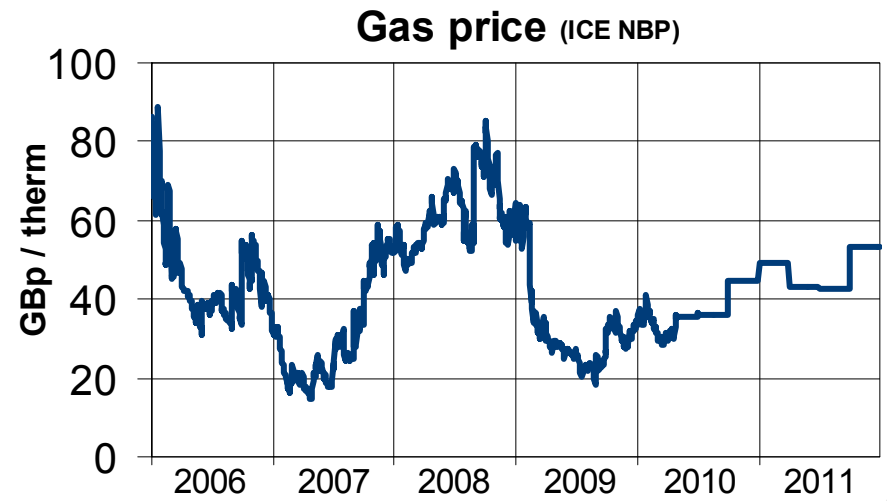
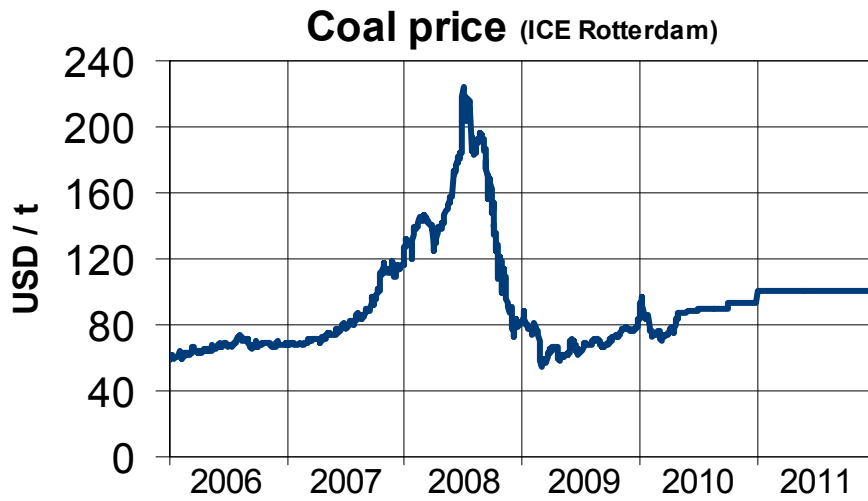
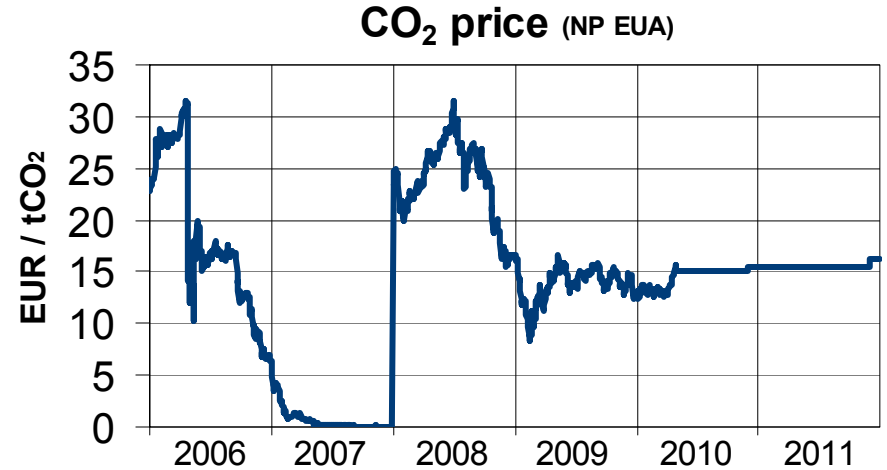
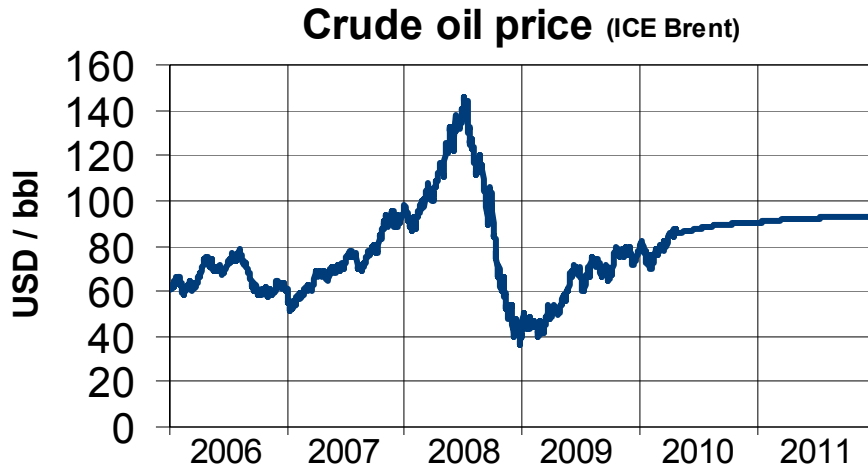
Nord Pool year forwards



Wholesale prices for electricity

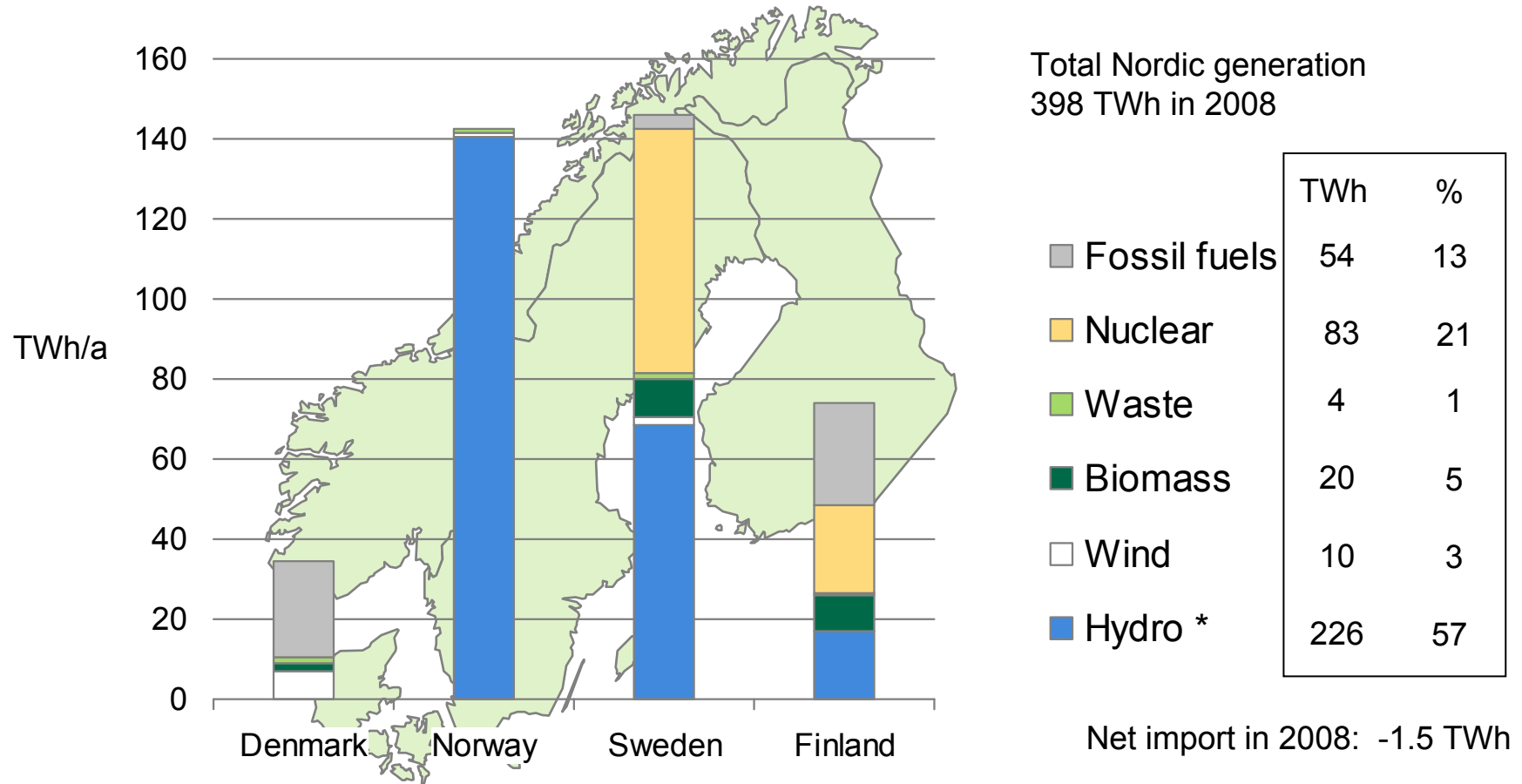


Fuel and CO₂ allowance prices



Source: ICE, Nord Pool

Nordic power generation mix



Source: Nordel

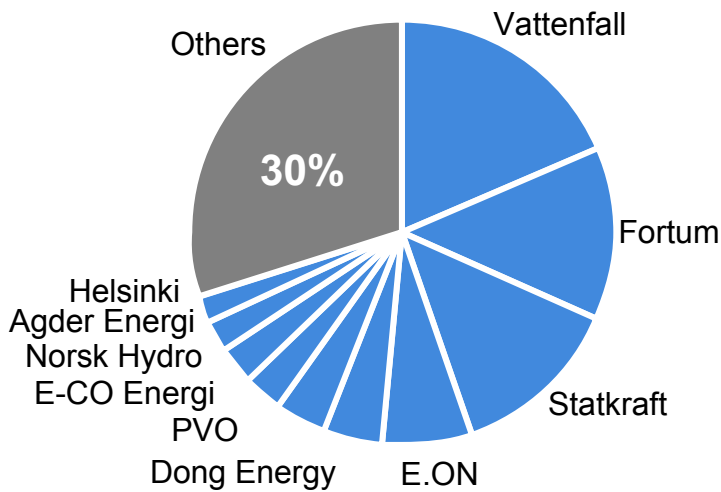
*) Normal annual Nordic hydro generation 200 TWh, variation +/- 40 TWh.

Still a highly fragmented Nordic power market

Power generation

398 TWh

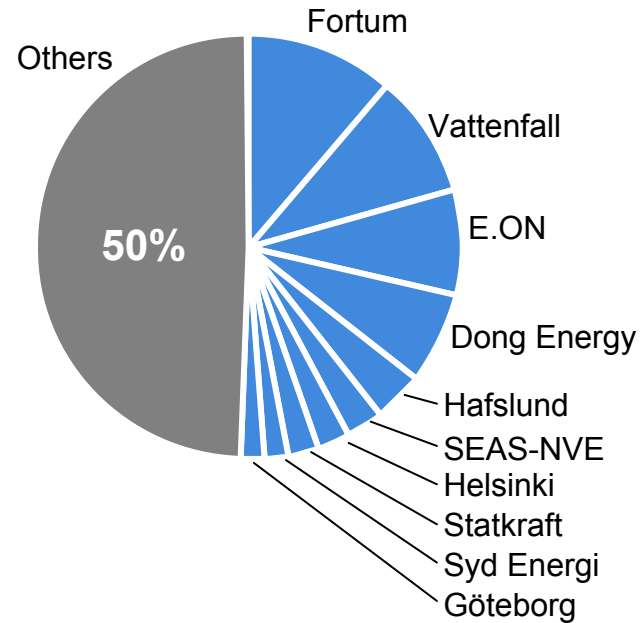
>350 companies



Electricity distribution

14 million customers

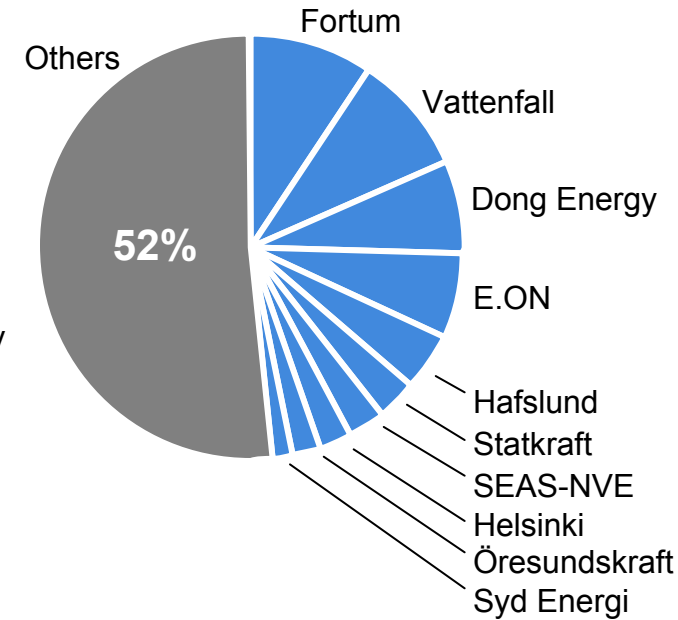
~500 companies



Electricity retail

14 million customers

~350 companies



Current market shares based on 2008 figures.



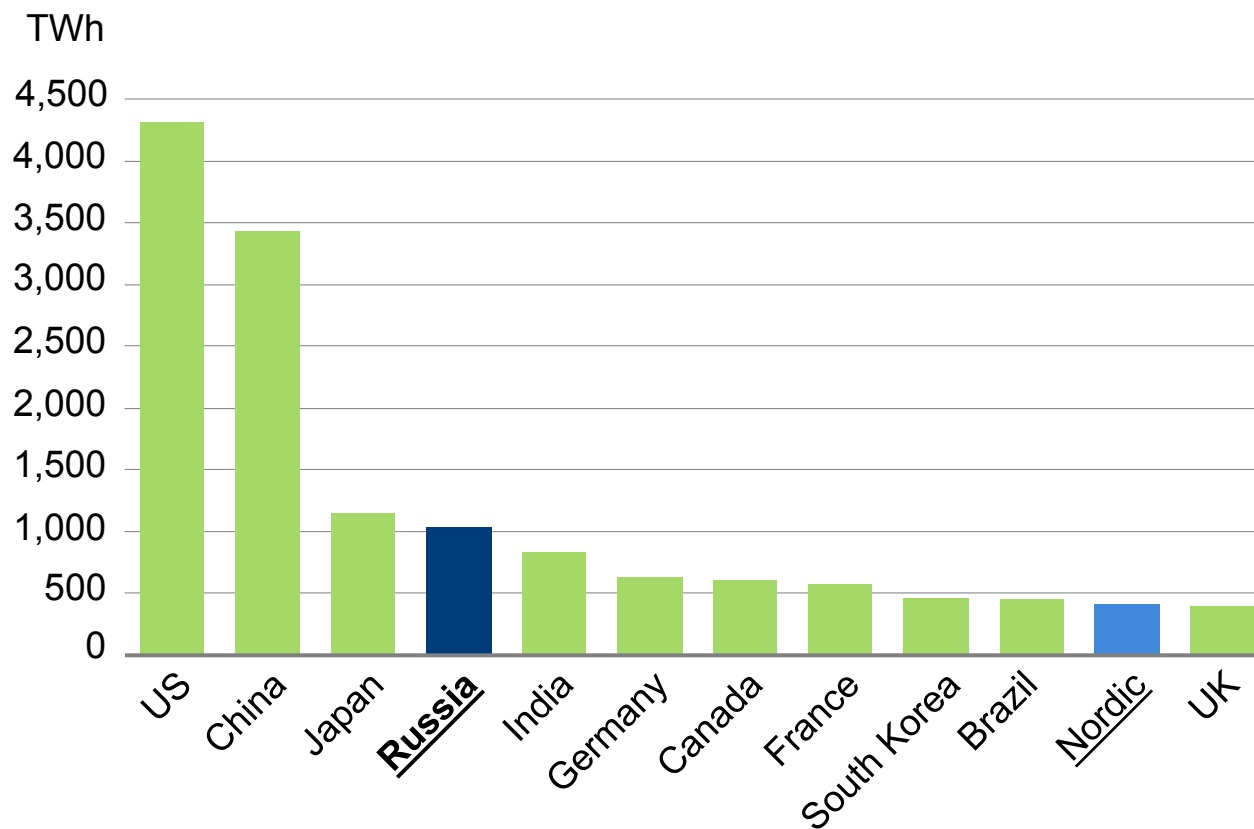
Fortum today

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Russia

Financials and outlook

Russia is the World's 4th largest power market



Data 2008 based on gross output.
Source: BP Statistical Review of World Energy June 2009

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

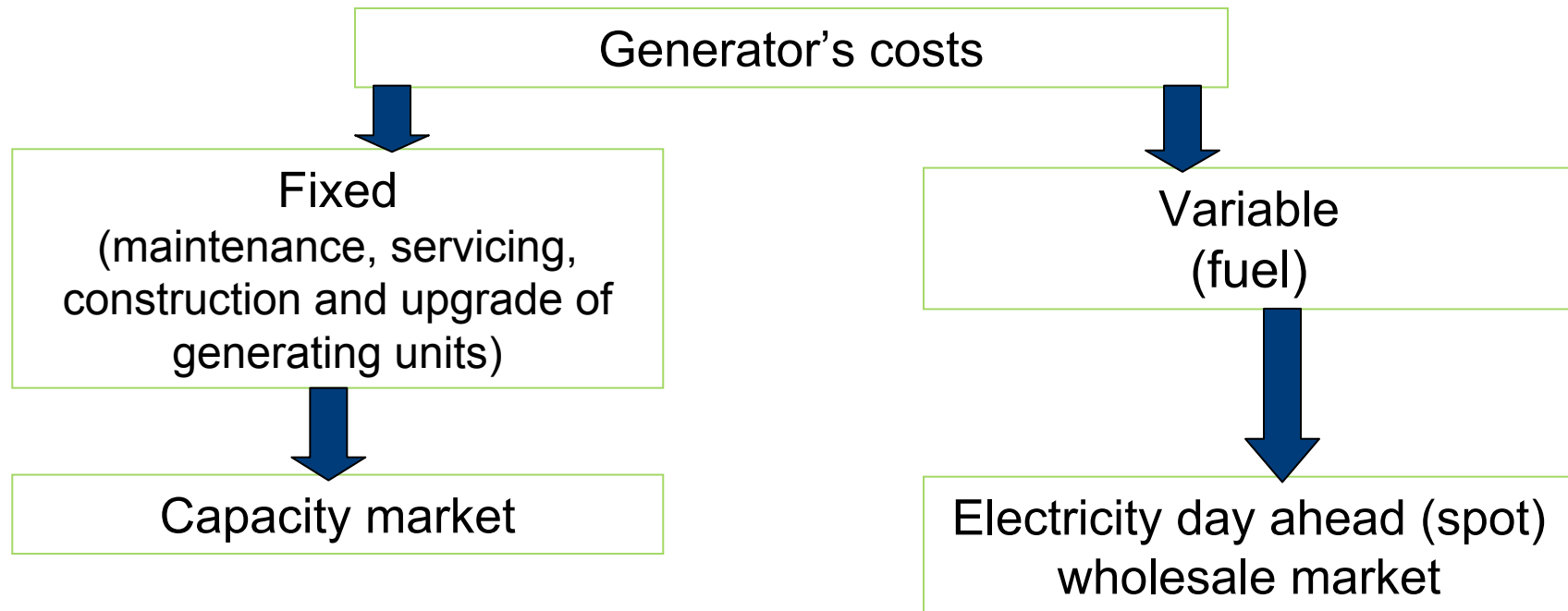
- Slightly over 25% of territorial generating company TGC-1 operating in north-west Russia
- ~6,250 MW electricity production capacity (appr. 50% hydro), ~24 TWh/a electricity, ~30 TWh/a heat



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



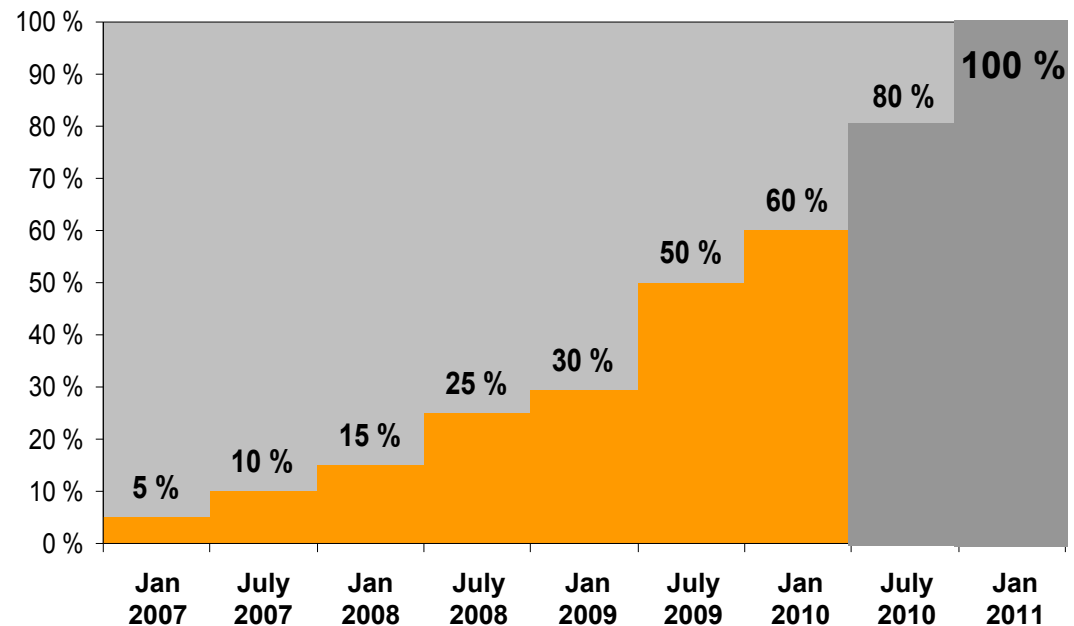
- Capacity payment is the intended mechanism for earning a (reasonable) return on invested capital
- Capacity payments are a big part of a power generator's income
 - a typical CHP plant ~35%, CCGT ~55% of revenues
- Day ahead (spot) market is for covering the variable costs
- Financial market planned to start in 2010

Power market liberalisation

– wholesale power market will be 100% liberalised in 8 months

- Further liberalisation of energy market increased to 60% in January 2010
- 80% in 1 July 2010
- 100% in 1 January 2011
- The sales to households will remain regulated still after 2011

Share of liberalised trade for existing capacity

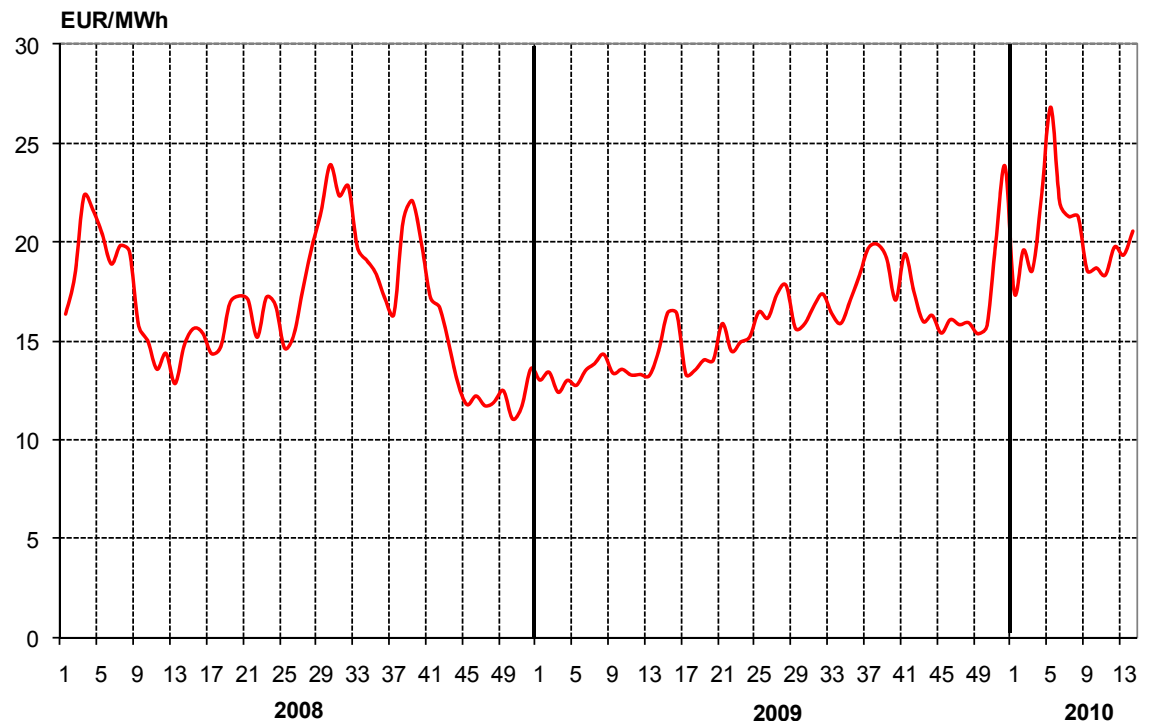


Day ahead wholesale market prices

– increase driven by recovering demand and gas price

- Demand back to pre-crisis levels in the overall Russia, Chelyabinsk and Tyumen regions
- Regulated gas price 24% higher than the average in 2009
 - 15% up from Q4/09
 - Planned to be increased by 15% in 2011
- Q1/2010 spark spreads (Urals) above 2009 levels

Day ahead market prices for Urals (weekly average)



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

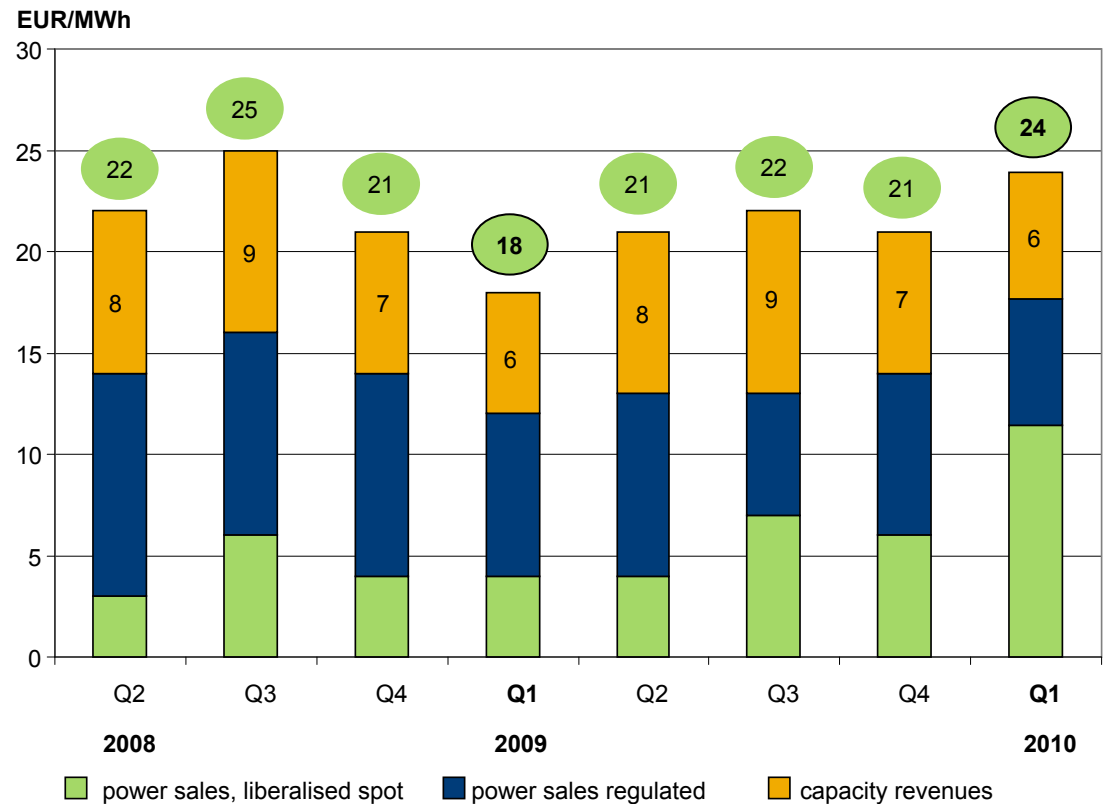
*Rate of return 14%, payback period 15 years. YTM of 8.5% for local government bonds (now ~7%)

** 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 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*

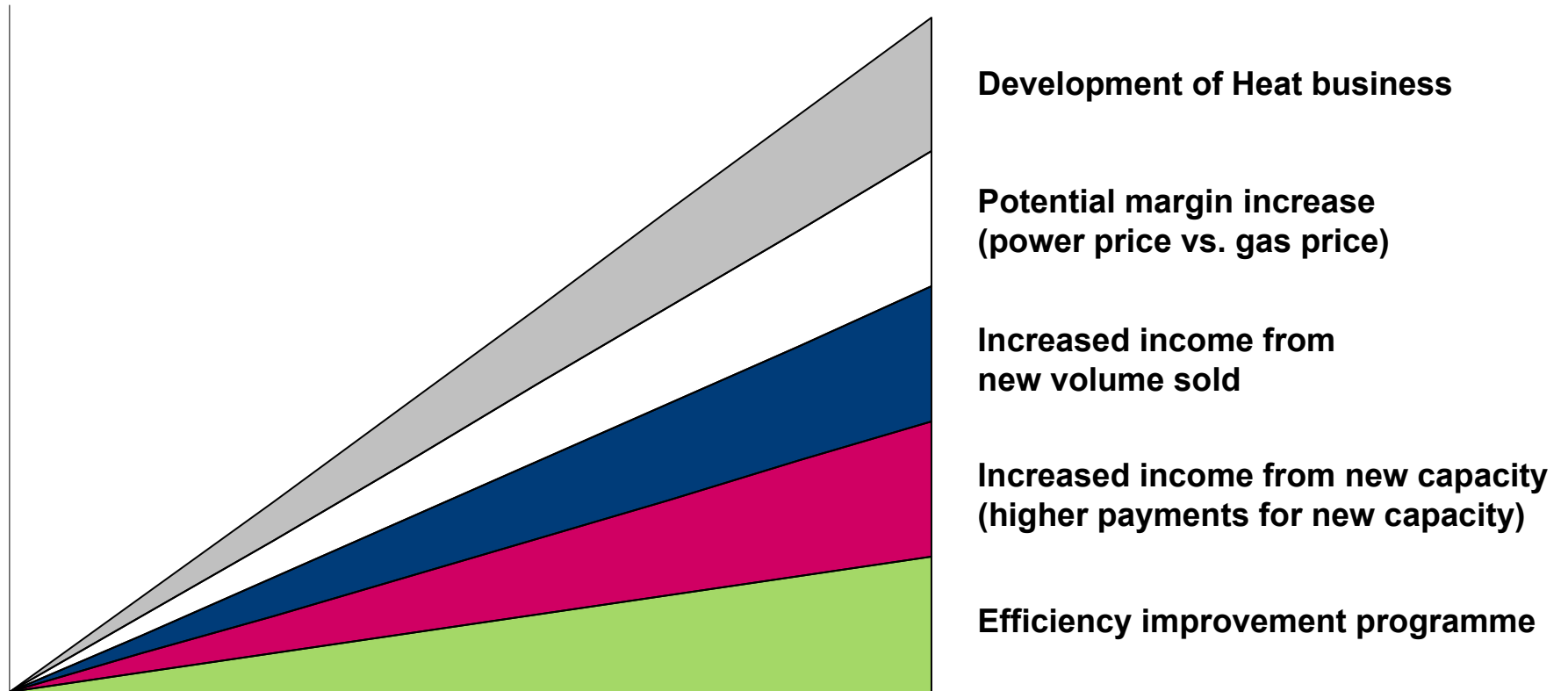


Efficiency improvement programme on track in Russia: ~100 MEUR EBIT effect in 2011

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

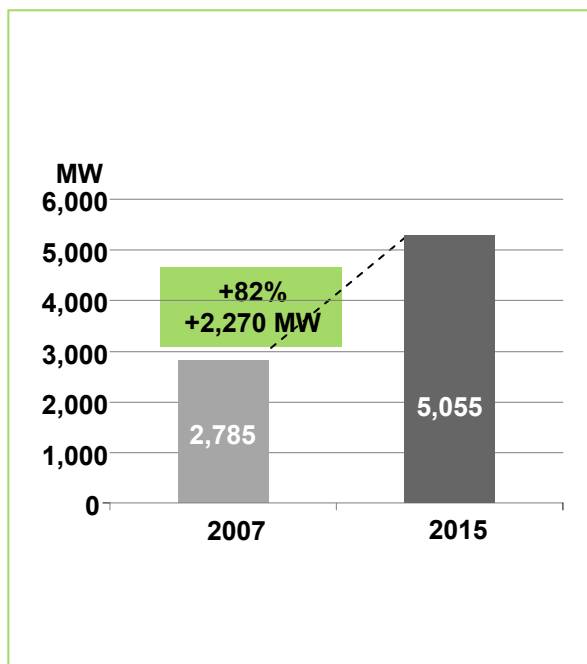
- The programme started in April 2008
- After two years, on track – about halfway towards the goal

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, Q3/2010	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	-			
Total		2,785	2,270	5,055



Fortum today

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Russia

Financials and outlook

Income statement

MEUR	I/2010	I/2009	2009	LTM
Sales	1 947	1 632	5 435	5 750
Expenses	-1 223	-1 033	-3 653	-3 843
Operating profit	724	599	1 782	1 907
Share of profit of associates and jv's	16	-33	21	70
Financial expenses, net	-27	-32	-167	-162
Profit before taxes	713	534	1 636	1 815
Income tax expense	-130	-111	-285	-304
Net profit for the period	583	423	1 351	1 511
Non-controlling interests	24	17	39	46
EPS, basic (EUR)	0.63	0.46	1.48	1.65
EPS, diluted (EUR)	0.63	0.46	1.48	1.65

Comparable and reported operating profit

	Operating profit I/2010		Operating profit I/2009		Operating profit 2009	
	Comparable	Reported	Comparable	Reported	Comparable	Reported
Power	424	467	415	432	1 454	1 363
Heat	132	159	114	115	231	252
Distribution	102	113	81	81	262	263
Electricity Sales	-13	-29	-2	-21	22	29
Russia	16	32	6	6	-20	-20
Other	-10	-18	-12	-14	-61	-105
Total	651	724	602	599	1 888	1 782

Cash flow statement

MEUR	I/2010	I/2009	2009	LTM
Operating profit before depreciations	861	721	2 292	2 432
Non-cash flow items and divesting activities	-67	1	46	-22
Financial items and fx gains/losses	-177	139	146	-170
Taxes	-82	-14	-239	-307
Funds from operations (FFO)	535	847	2 245	1 933
Change in working capital	-14	-25	19	30
Total net cash from operating activities	521	822	2 264	1 963
Paid capital expenditures	-223	-180	-845	-888
Acquisition of shares	0	-50	-85	-35
Other investing activities	88	-7	-44	51
Cash flow before financing activities	386	585	1 290	1 091

Current Fortum Group financial targets

• Return on capital employed 12%

• Return on shareholder's equity 14%

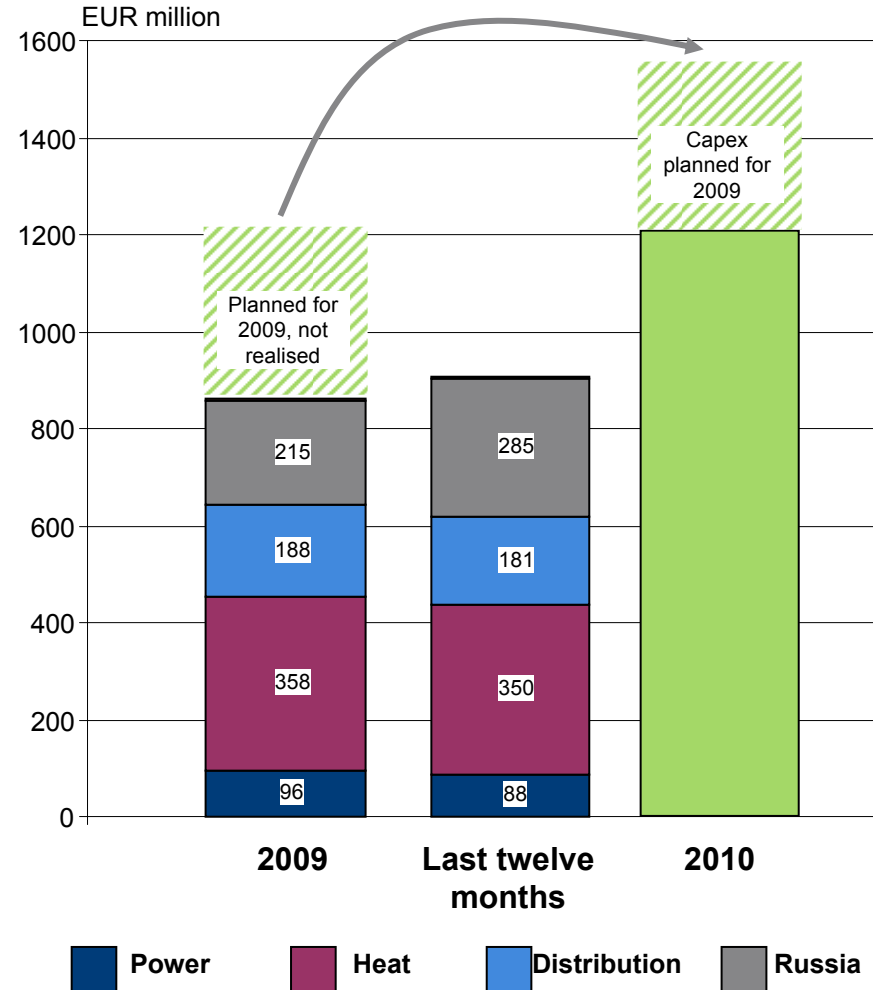
• Net debt/EBITDA 3.0–3.5

Key ratios

MEUR	LTM in Q1 '10	2009	2008
EBITDA	2 432	2 292	2 478
Net cash flow from operations	1 963	2 264	2 002
Interest-bearing net debt	5 679	5 969	6 179
Equity	8 465	8 491	8 411
Balance sheet total	21 318	19 841	20 278
Net debt/EBITDA	2.3	2.6	2.5
Return on capital employed (%)	12.3	12.1	15.0
Return on shareholders' equity (%)	17.6	16.0	18.7

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
 - 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

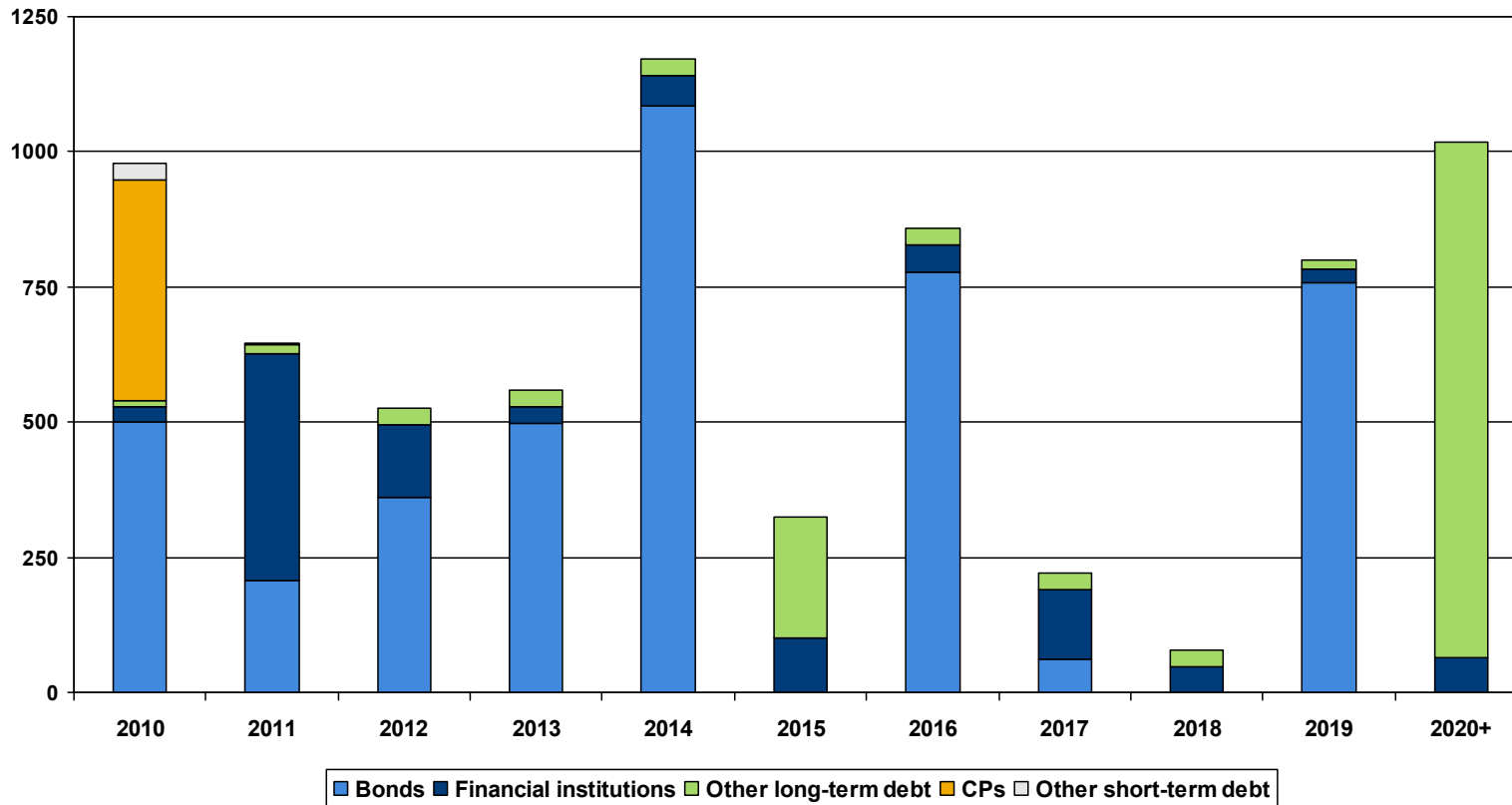
Estimated annual Capex 2011-2013

Maintenance ~ EUR 300–500 m

Growth ~ EUR 200–400 m

Russian growth ~ EUR 300 m

Debt maturity profile



	<u>MEUR</u>
2010	980
2011	645
2012	525
2013	560
2014	1,172
2015	322
2016	858
2017	220
2018	78
2019	799
2020+	1,018

Duration (years)
 Average interest rate (incl. swaps and forwards)
 Portion of floating / fixed debt

<i>per 31 March, 2010</i>	<i>per 31 December, 2009</i>
1.8	1.8
3.0 %	3.4 %
63 / 37 %	62 / 38 %

Liquidity at the end of Q1/2010

MEUR	Available	Outstanding	Total amount
<u>SHORT TERM FINANCING</u>			
Commercial Paper Programmes			
<i>Finnish CP Programme</i>	364	136	500
<i>SEK 5.000 M Swedish CP Programme</i>	241	274	515
	604	410	1 015
<u>LIQUID FUNDS AND COMMITTED CREDIT LINES</u>			
Committed Credit Lines			
<i>Short Term</i>	214	0	214
<i>Long Term</i>	2 700	0	2 700
	2 914	0	2 914
Liquid Funds			
<i>Cash and cash equivalents</i>	1 103		
<i>Bank Deposits over 3 months</i>	395		
	1 498		
<i>of which in Russia</i>	583		
Total Available Cash and Committed Financing	4 412		

Hedging of Power division's Nordic sales

Status at the end of March 2010

(Status at the end of Dec 2009)

	<u>Hedge ratio</u>	<u>Hedge price</u>
rest of 2010	~ 75% (~70%)	~ EUR 44 per MWh (~ EUR 44 per MWh)
2011	~ 45% (~40%)	~ EUR 43 per MWh (~ EUR 42 per MWh)

	Q3/2010	Q4/2010	2011
Current forward quotations at Nord Pool*:	~48 €/MWh	~52 €/MWh	~47 €/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, CO₂ 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**