

# FORTUM

A leading power and heat company  
in the Nordic area

Presentation for investors

February 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

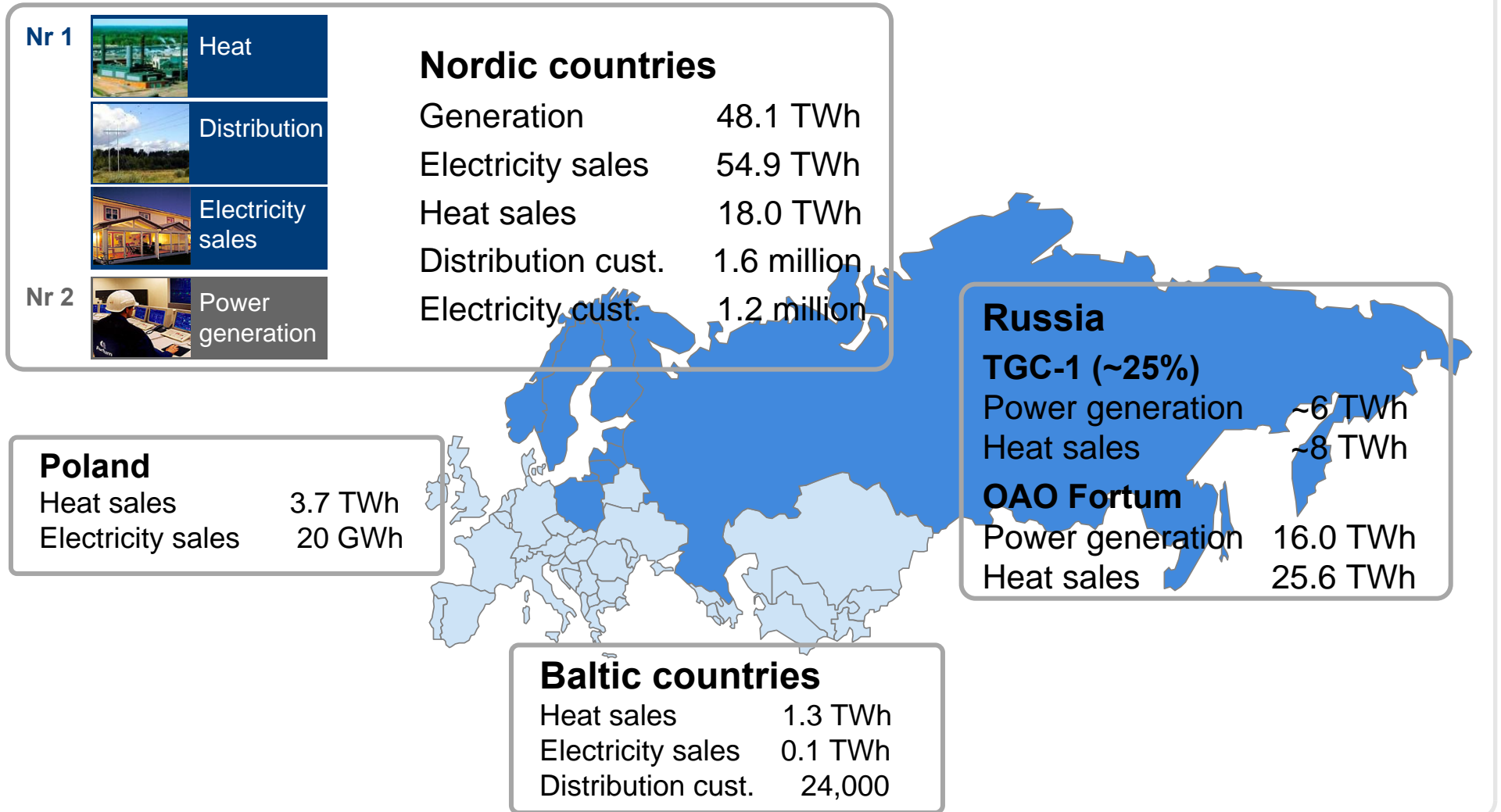
Russia

Financials and outlook

# We intend to keep our leading position



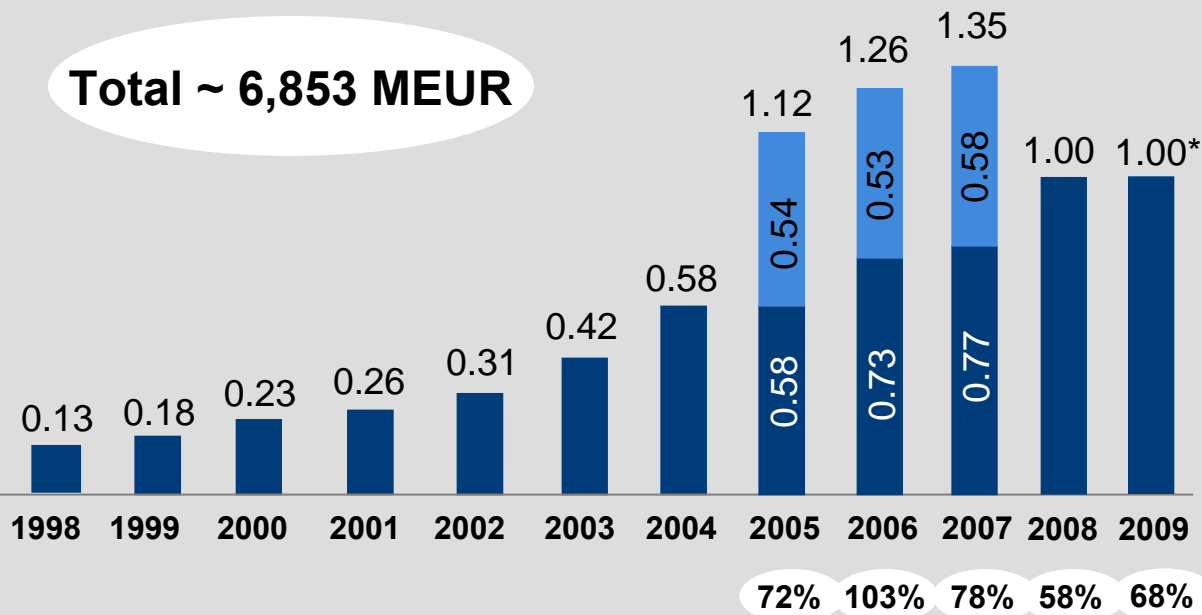
# Our geographical presence today



# Capital returns

Dividend per share  
EUR

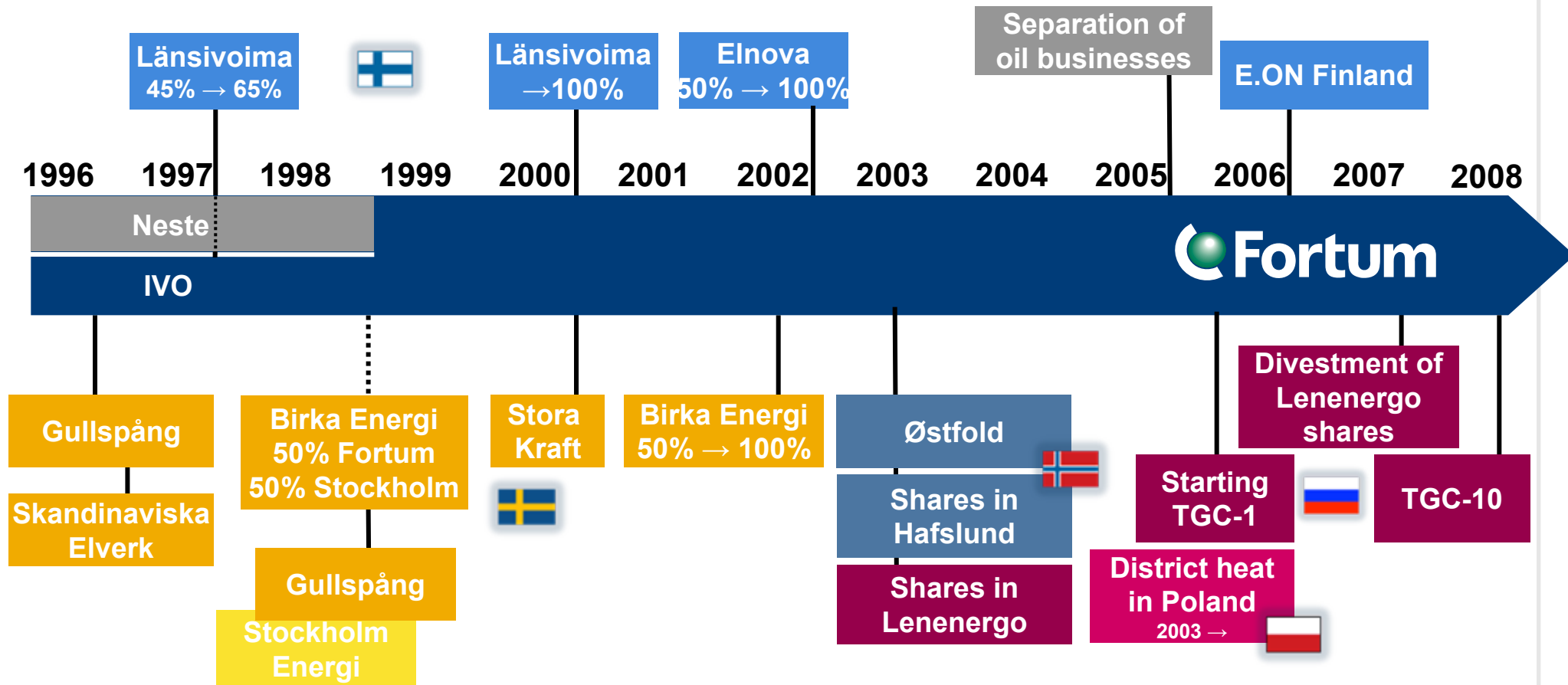
Total ~ 6,853 MEUR



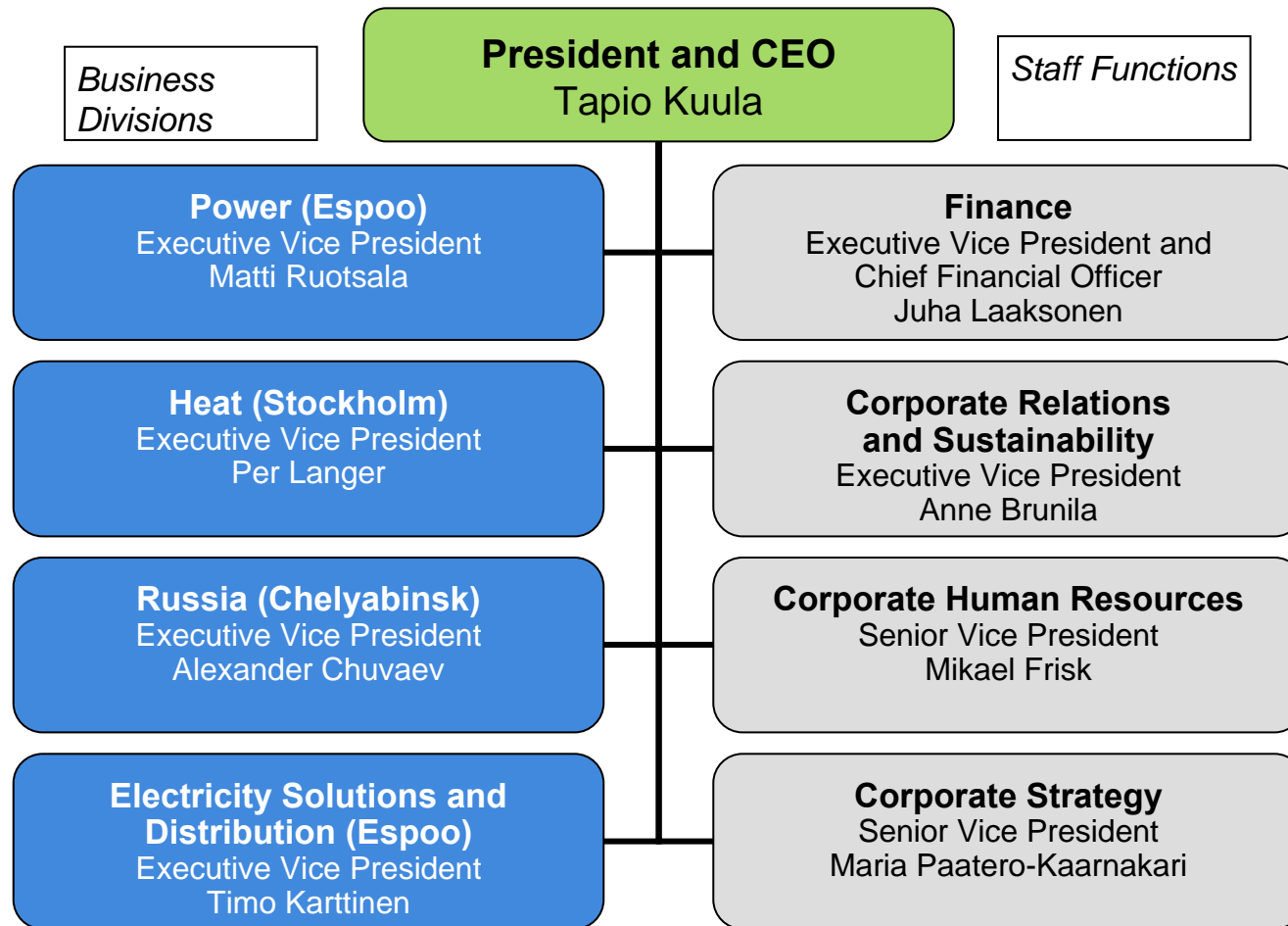
\* The BoD proposal for the AGM

- Dividend proposal 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



# New organisational structure as of 1 October 2009

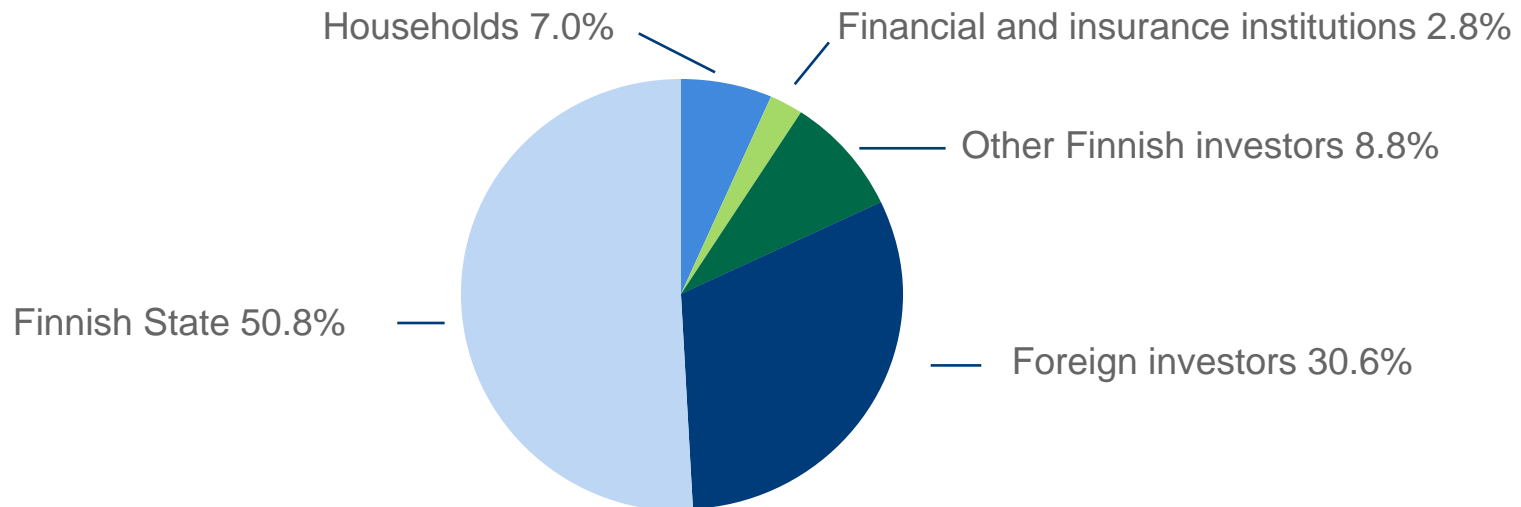


Country responsables: Timo Karttinen / Finland, Norway; Per Langer / Sweden, Poland, Baltics; Alexander Chuvaev / Russia

Improved efficiency, accountability, simplicity

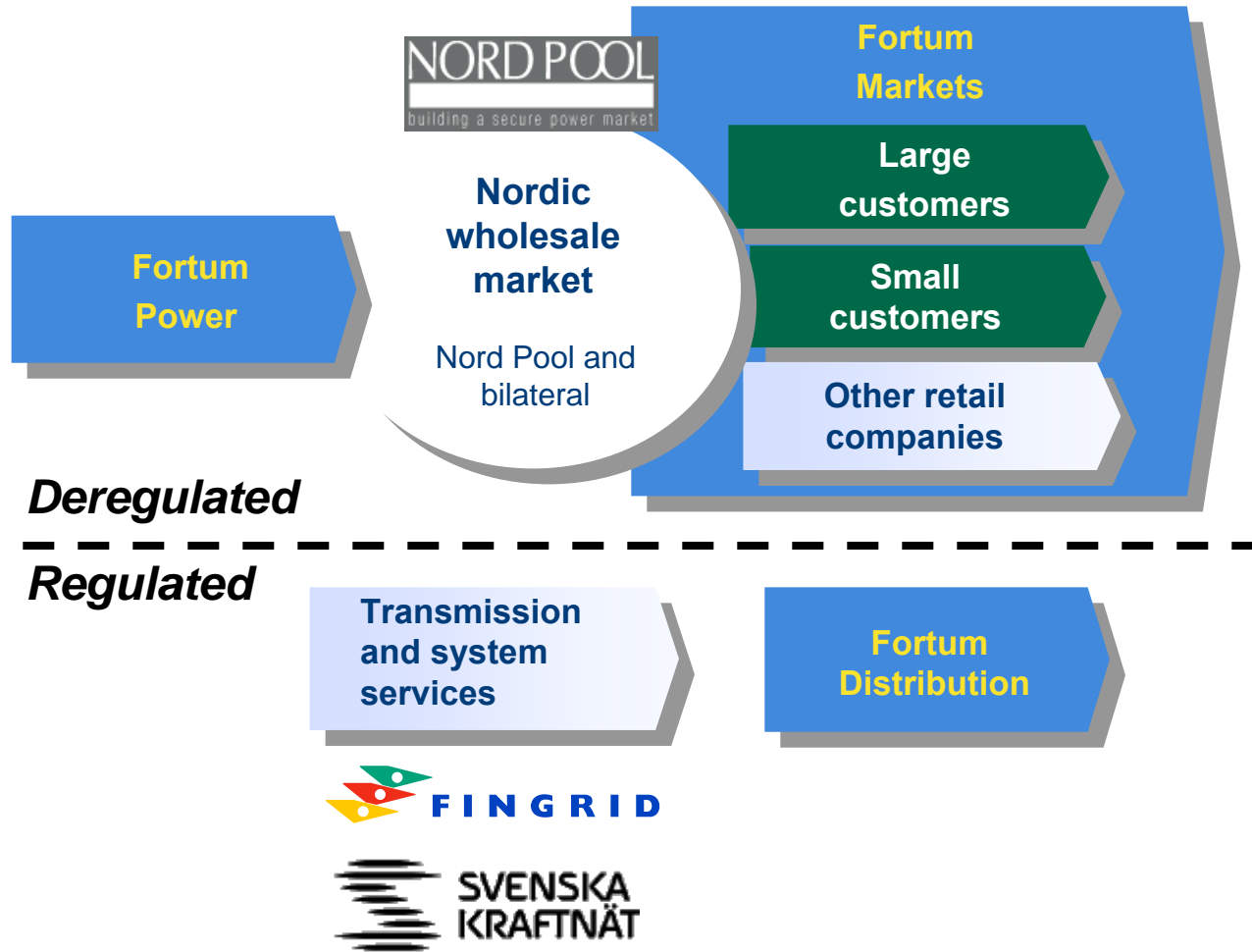
# A leading Nordic power and heat company

- Leading power and heat company in Nordic countries
- Listed at the Helsinki Stock Exchange 1998
- Approximately 85,000 shareholders
- Among the most traded shares in Helsinki stock exchange
- Market cap ~16 billion euros



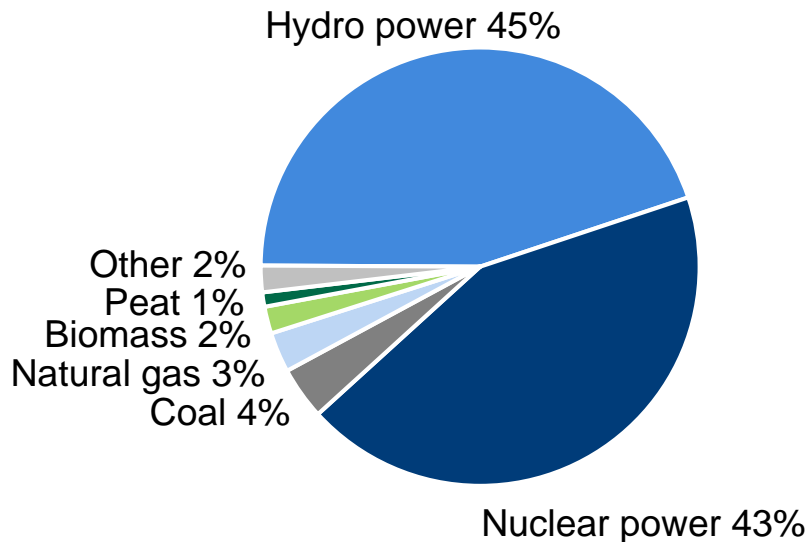
31 January 2010

# Fortum in the Nordic electricity value chain



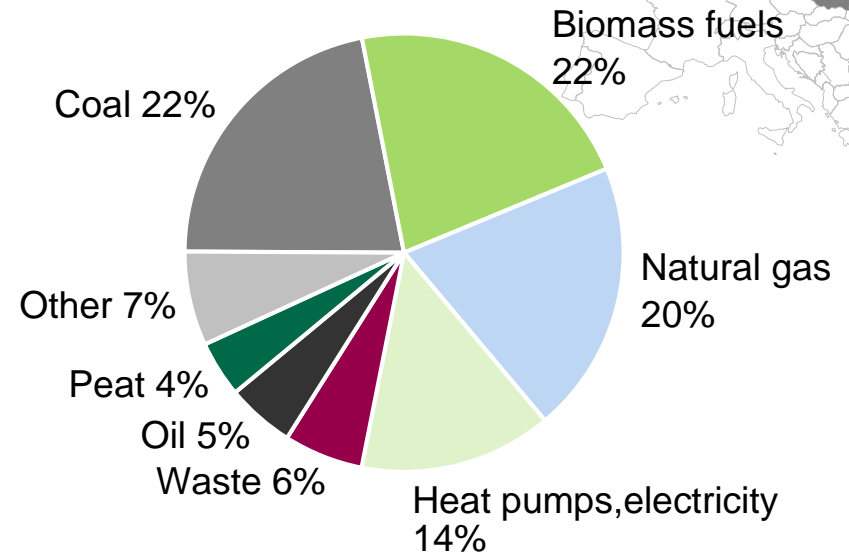
# Fortum's European power and heat production

## Fortum's European power generation in 2009

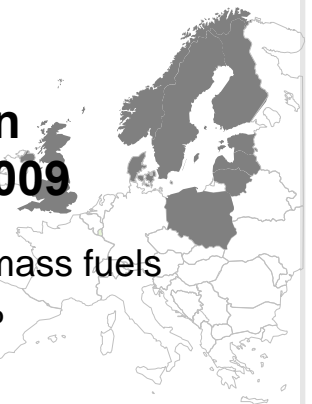


**European generation 49.3 TWh**  
(Generation capacity 11,155 MW)

## Fortum's European heat production in 2009

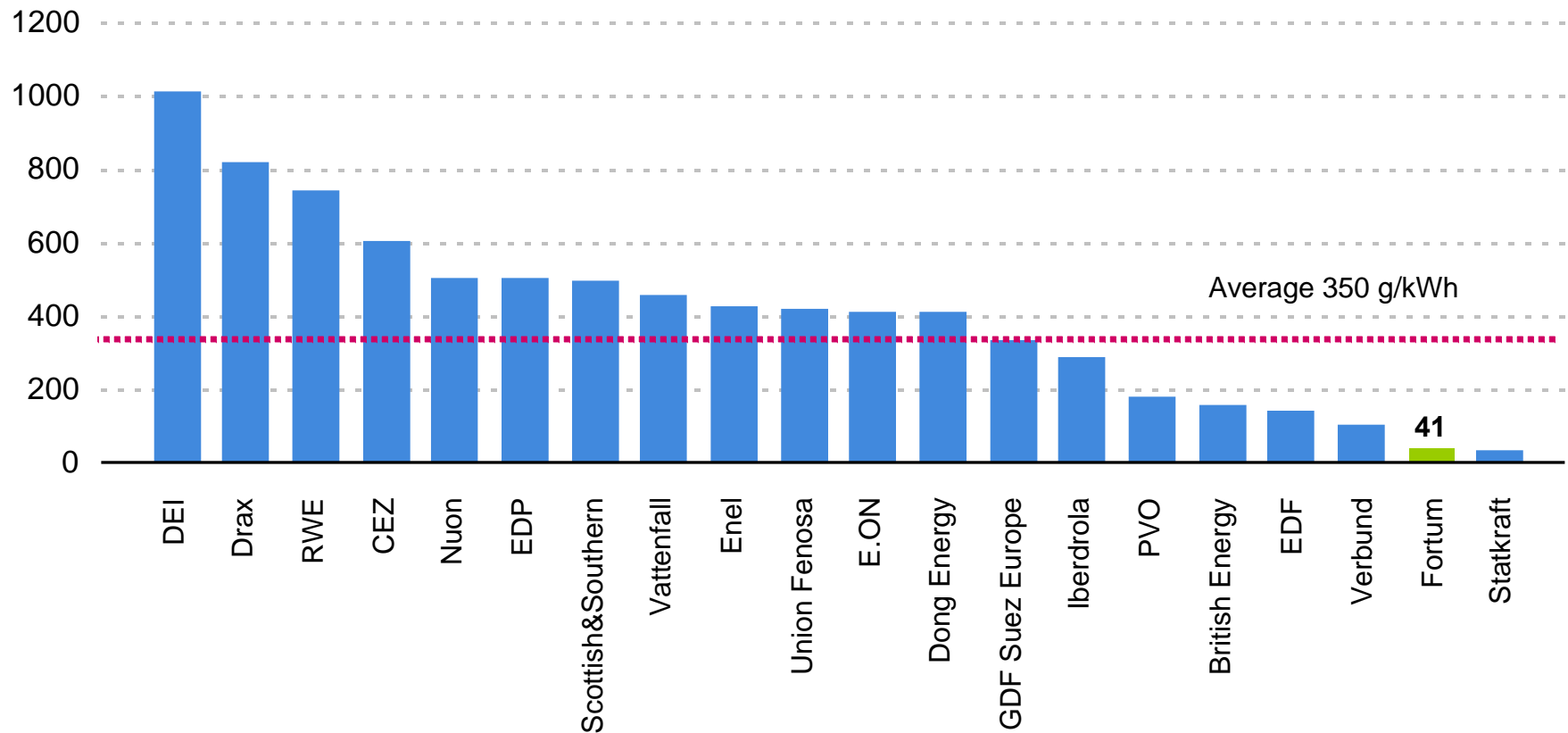


**European production 23.2 TWh**  
(Production capacity 10,534 MW)



# Fortum's carbon exposure among the lowest in Europe

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



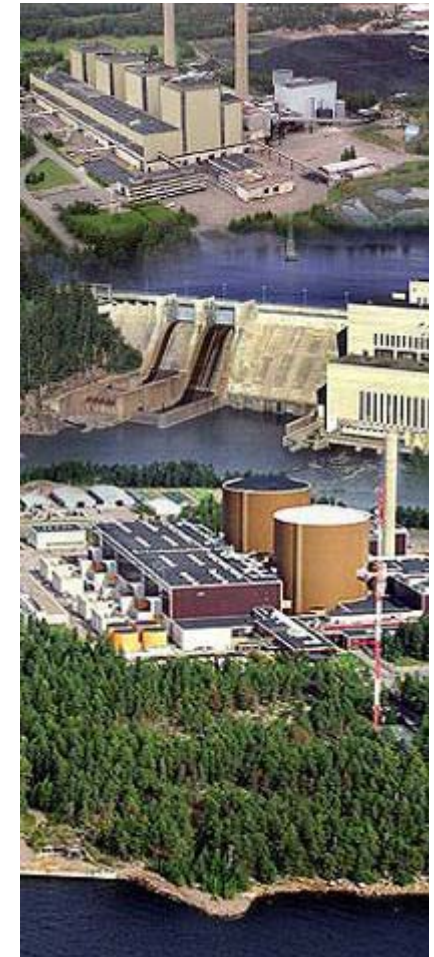
Source:  
PWC & Enerpresse, 2009  
Changement climatique et Électricité

# Fortum's investment programme

## Nordic region, Poland and Baltic countries

- Olkiluoto 3, Finland, nuclear
- Swedish nuclear
- Refurbishing of existing hydro assets
- Czestochowa, Poland (coal/biomass CHP), Q3/2010
- Pärnu, Estonia (biomass/peat CHP), end of 2010
- Wind power project development

**Electricity capacity ~800 MW**  
**~95% CO<sub>2</sub>-free**



# Decision-in-Principle application for Loviisa 3

- A Decision-in-Principle application for the construction of a new 1000-1800 MW nuclear power plant unit in Loviisa
- Designed service life of the unit at least 60 years
- Fortum already has two nuclear power plant units in Loviisa
- The power plant unit will be designed to allow for combined heat and power production
- Five reactor alternatives
- The investment cost of one nuclear unit is EUR 4-6 billion
- The plant site and its basic infrastructure ready, the basic investments in nuclear waste management have been made



# Planned schedule for the implementation of Loviisa 3

Stage	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Infrastructure	■										
Preparations for construction			■								
Construction						■					
Commercial use											➔



Fortum today

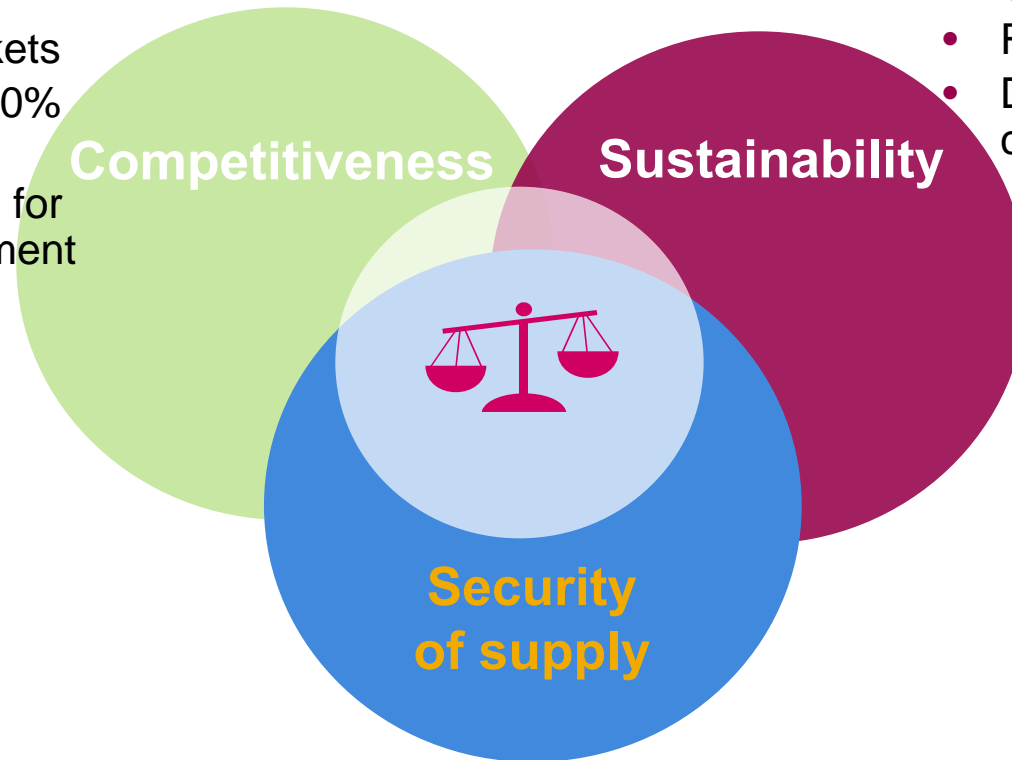
European power markets

Russia

Financials and outlook

# Key EU objectives by 2020

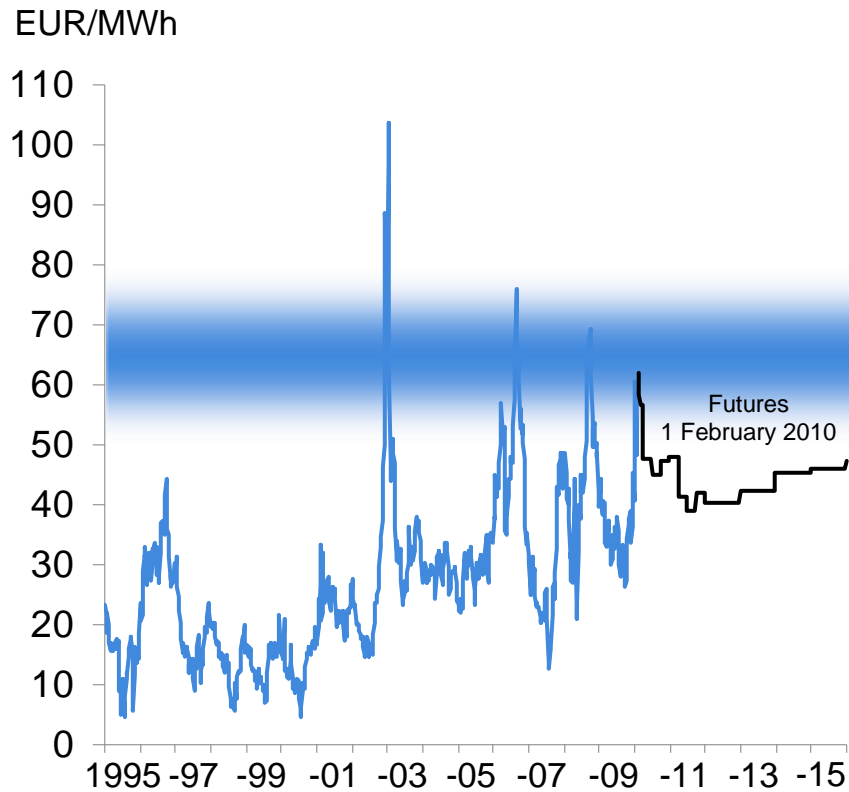
- Implementation of internal energy markets
- Energy efficiency +20% (2020)
- Increased resources for technology development



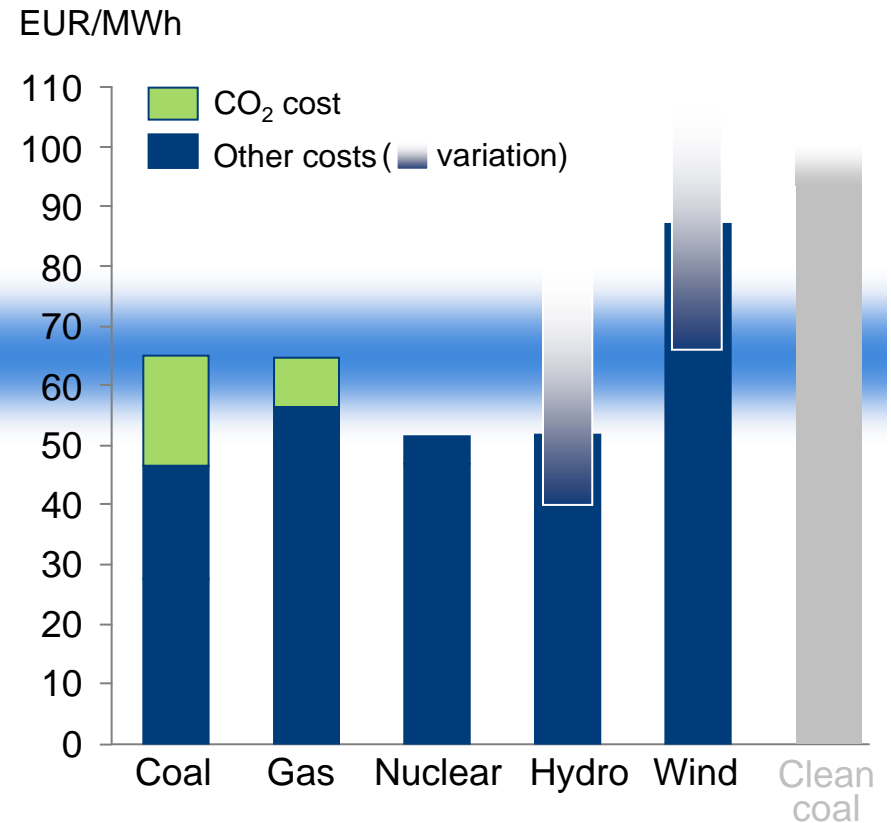
- Minimum reduction of EU CO<sub>2</sub> emissions 20% (2020)
- Renewables 20% (2020)
- Development of CO<sub>2</sub> capture and storage

- 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



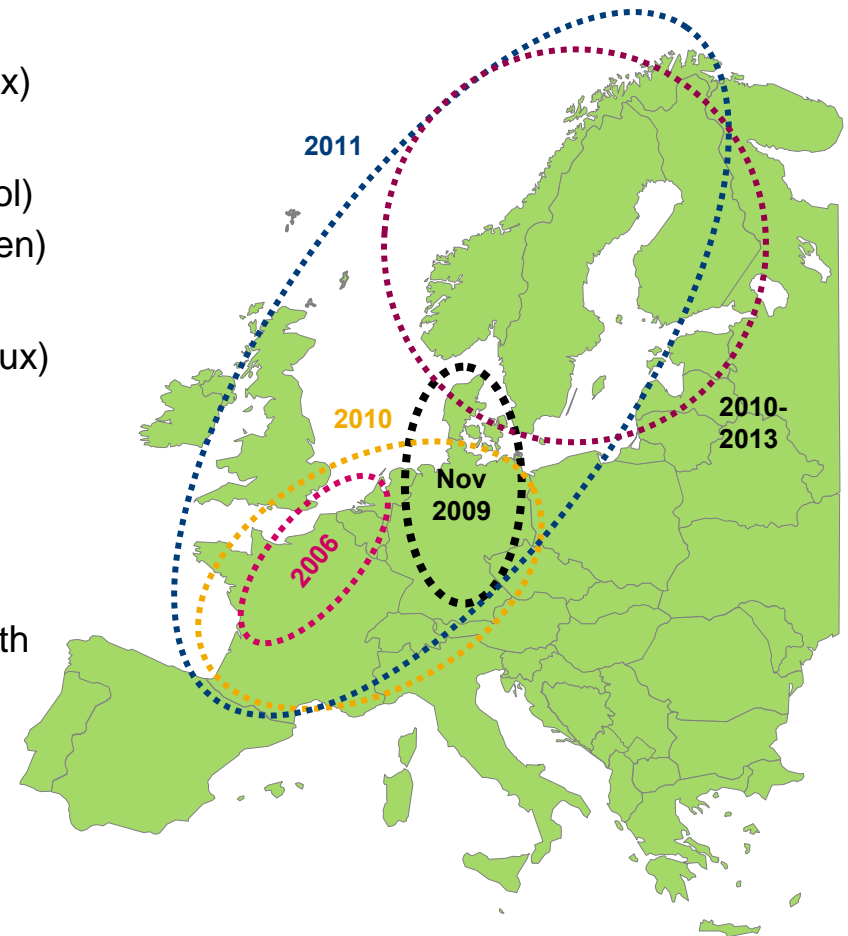
Source: Nord Pool



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

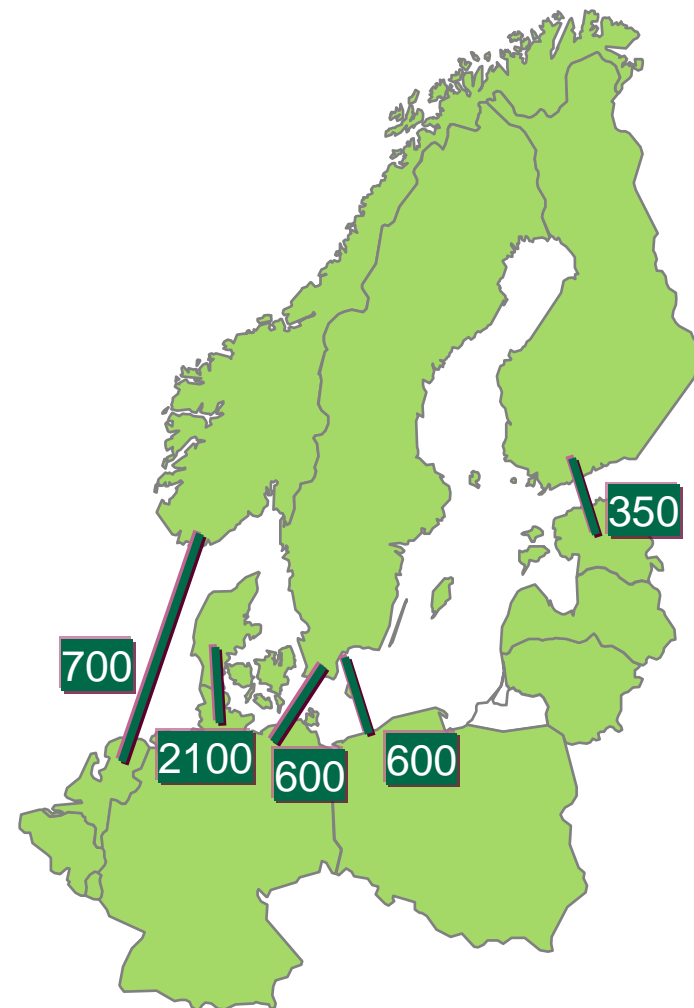
- Market coupling between Netherlands (APX), Belgium (Belpex) and France (Powernext) since 2006
- Market coupling Germany (EPEX Spot) – Denmark (Nord Pool) started on 9 November 2009. Baltic Cable (Germany – Sweden) and NorNed (Norway – NL) will possibly be included later.
- Market coupling for Central 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



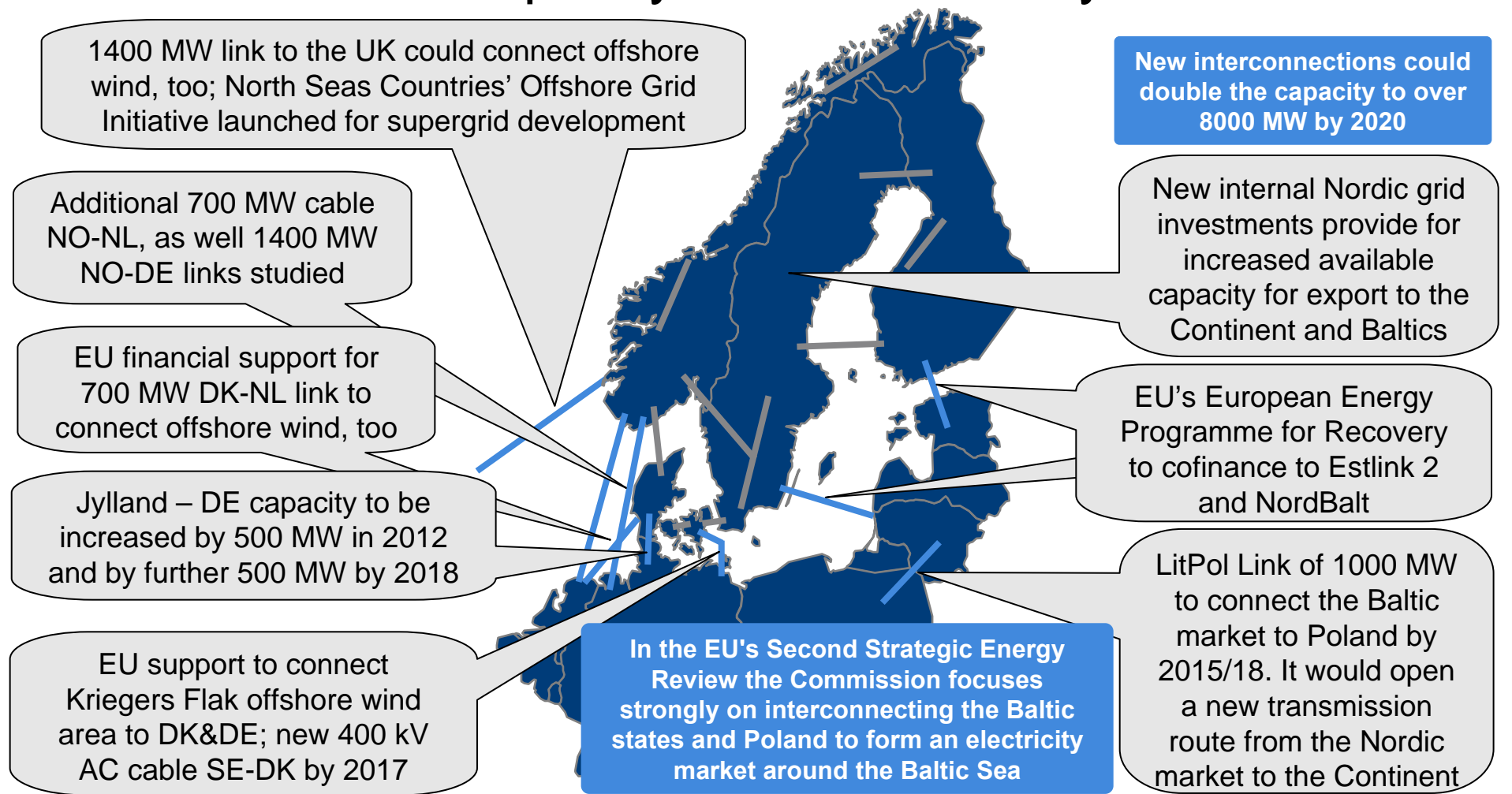
# Current transmission capacity from Nordic area to Continental Europe is ~4000 MW

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
<b>Total</b>	<b>4 000</b>	<b>3 450</b>

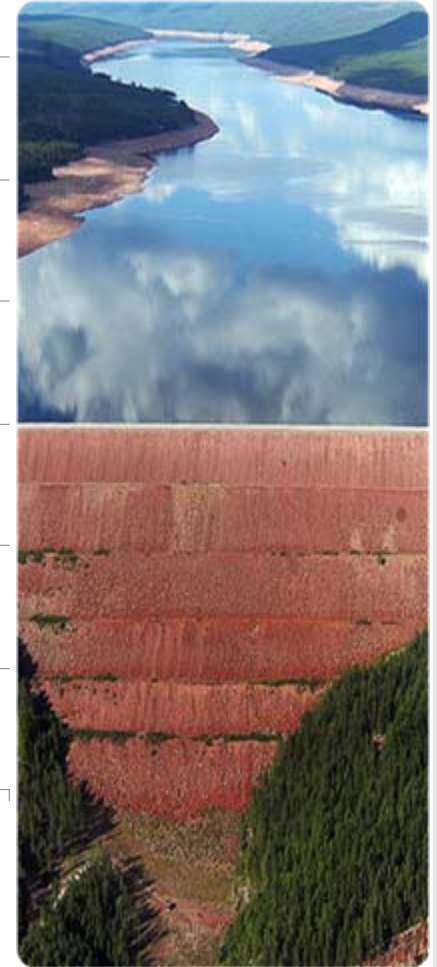
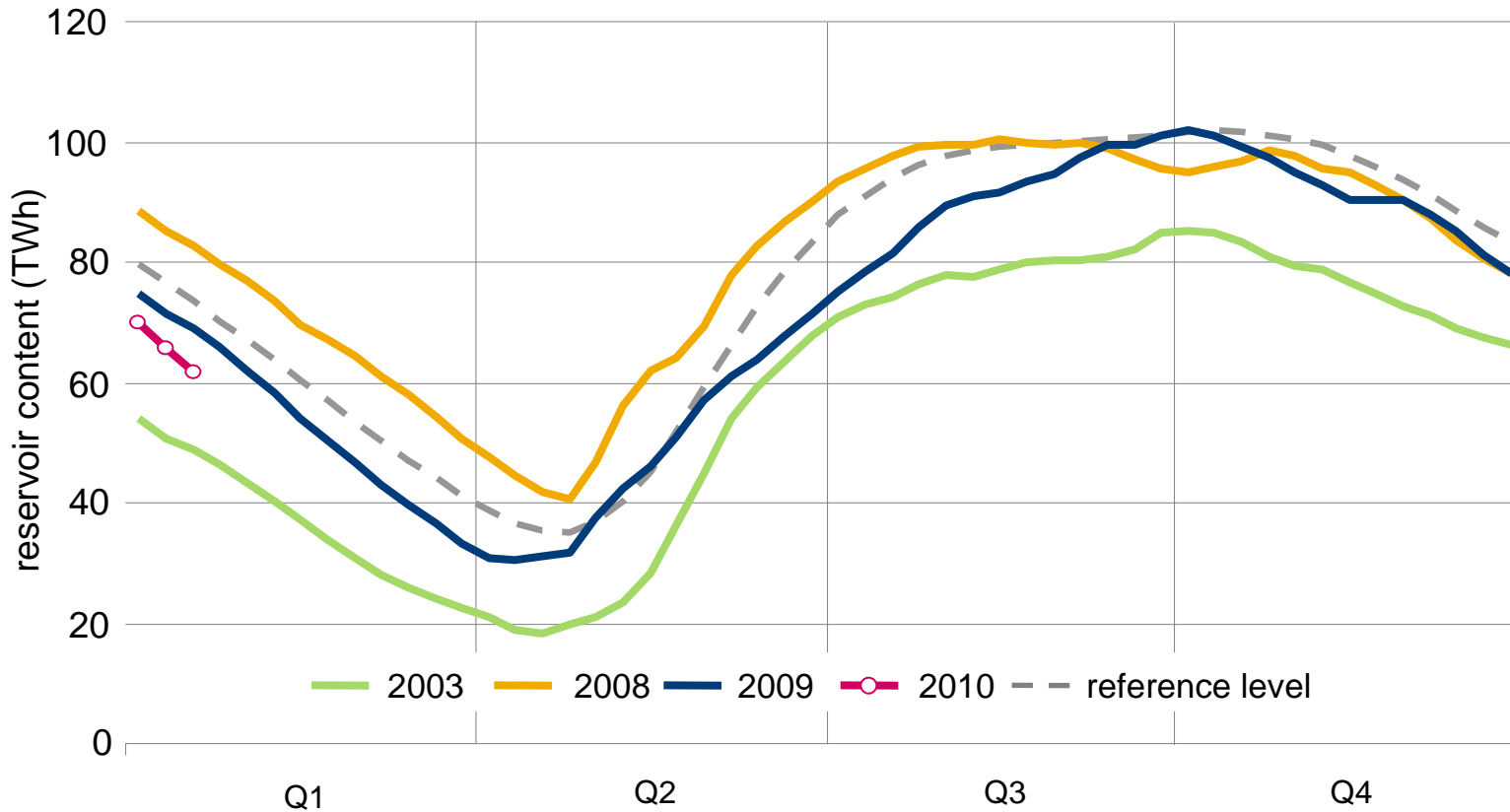
- Theoretical maximum in transmission capacity ~35 TWh per annum
- Net export from Nordic area to Continental Europe in 2008 was ~15 TWh and in 2009 ~5 TWh
- Approximately 20 TWh net export fairly easily reachable



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

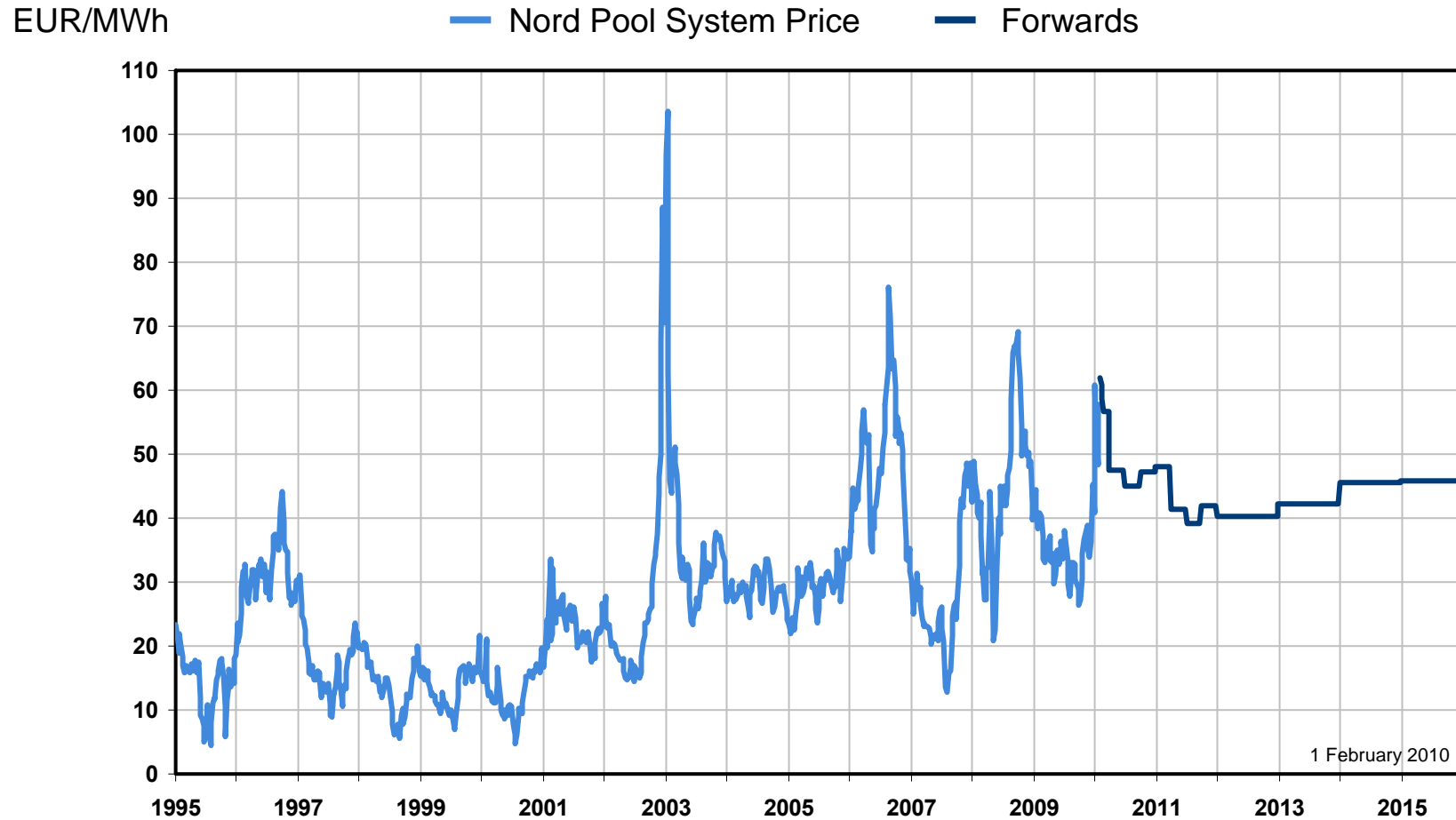


# Nordic water reservoirs



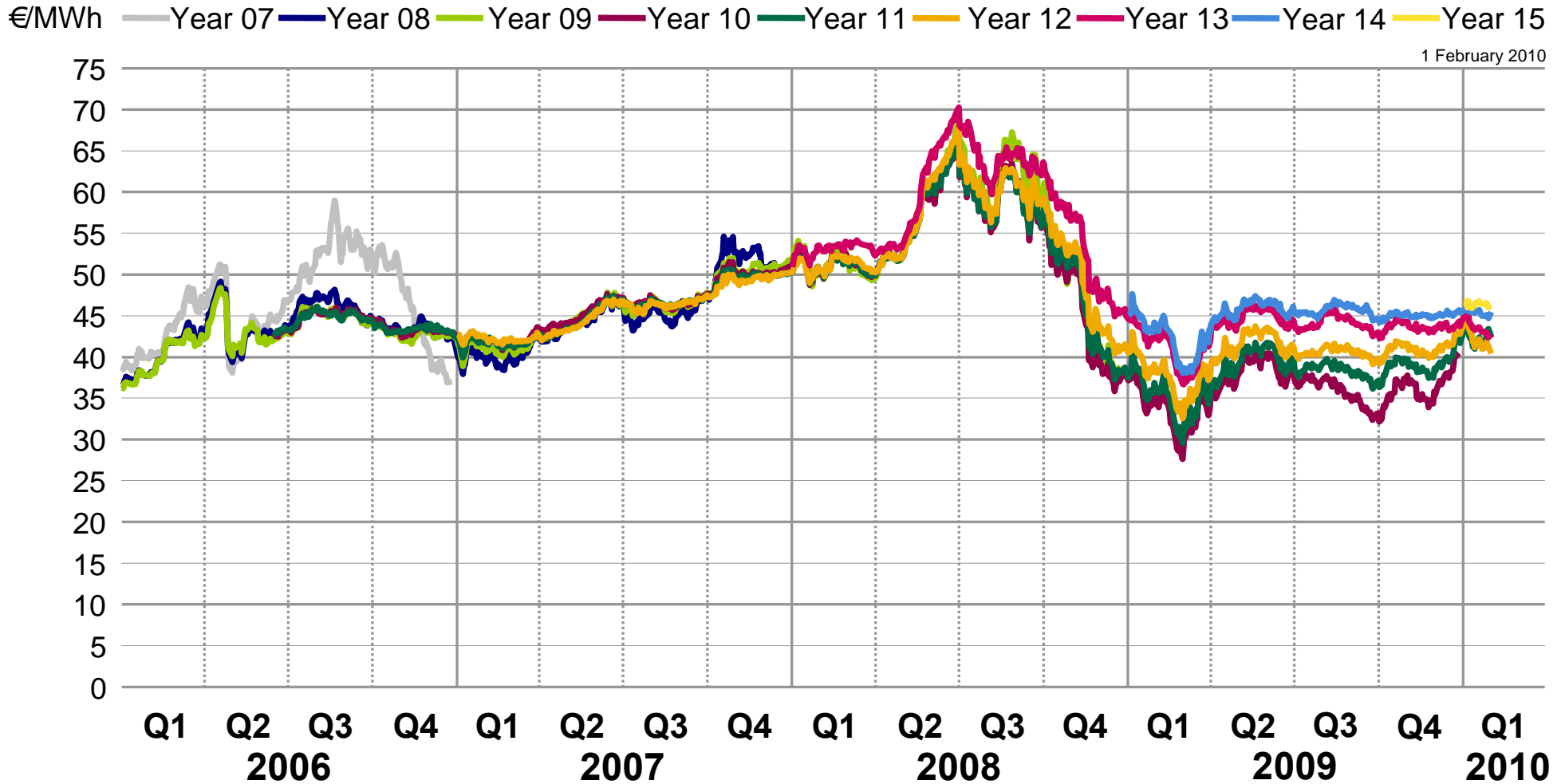
Source: Nord Pool

# Wholesale price for electricity

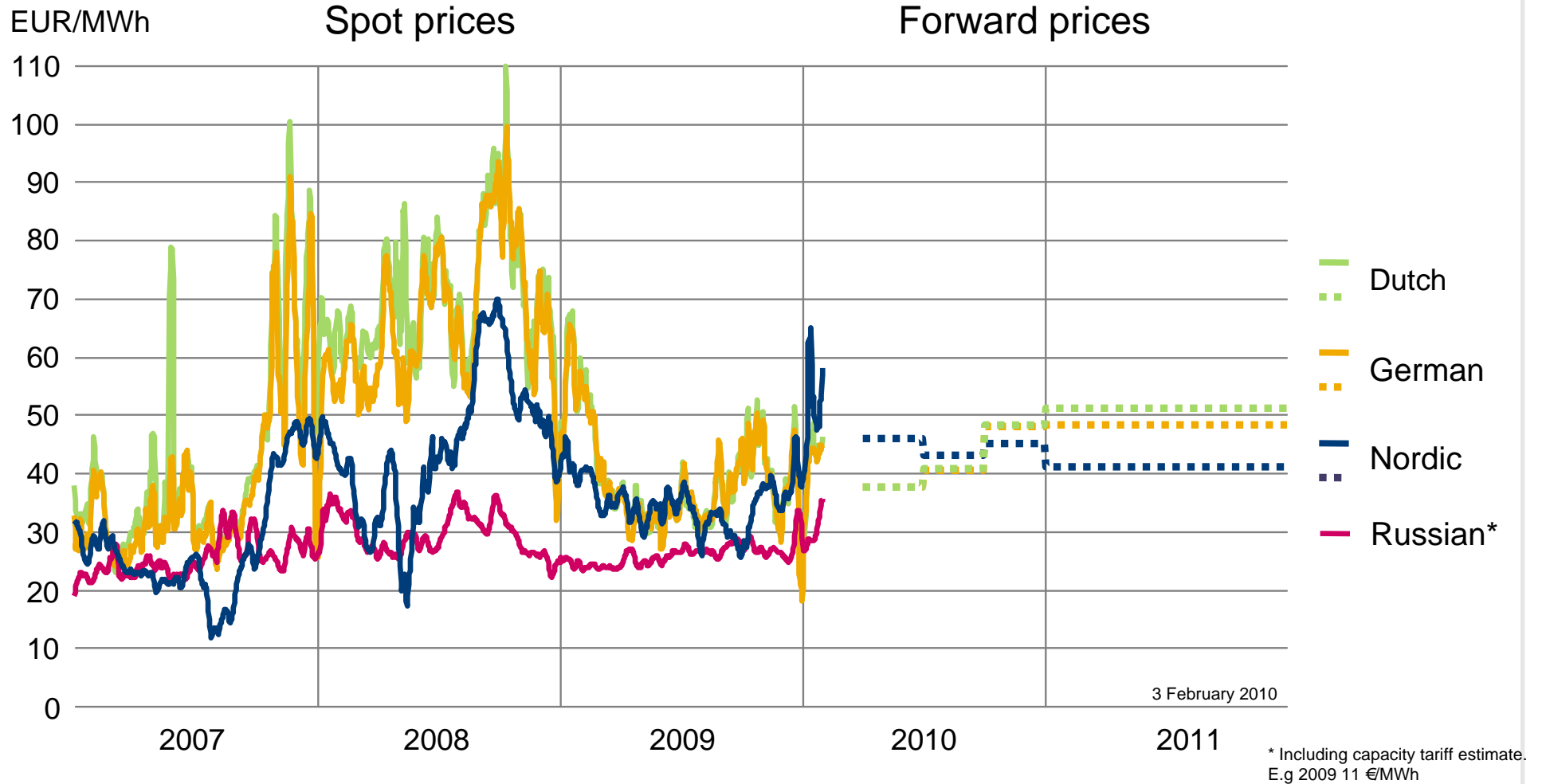


Source: Nord Pool

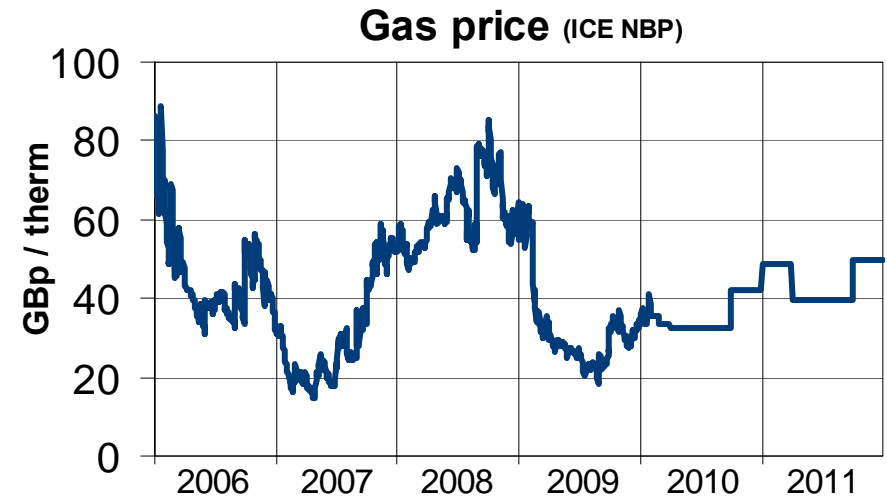
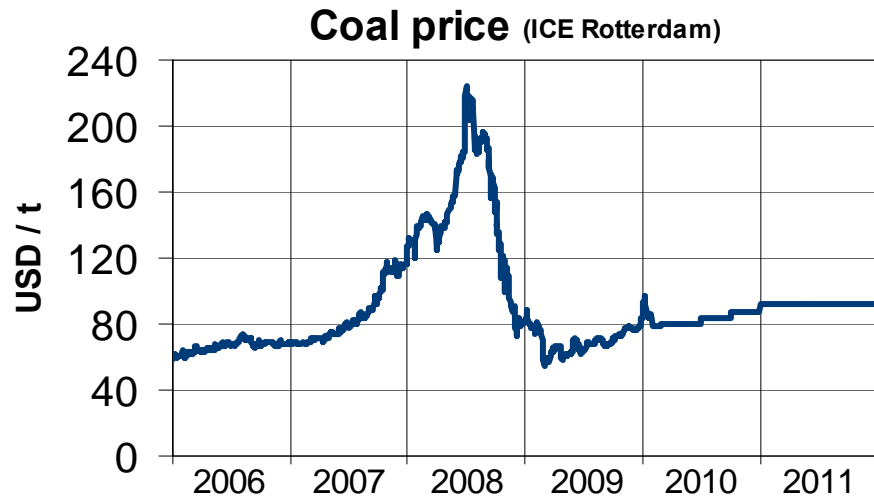
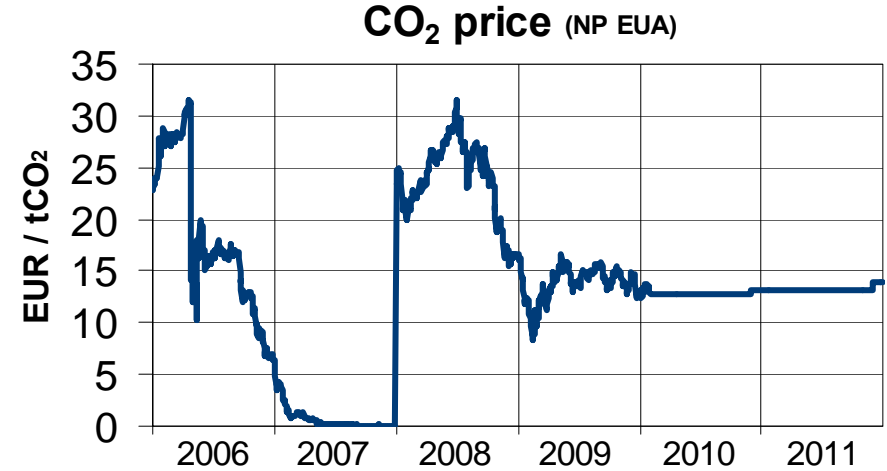
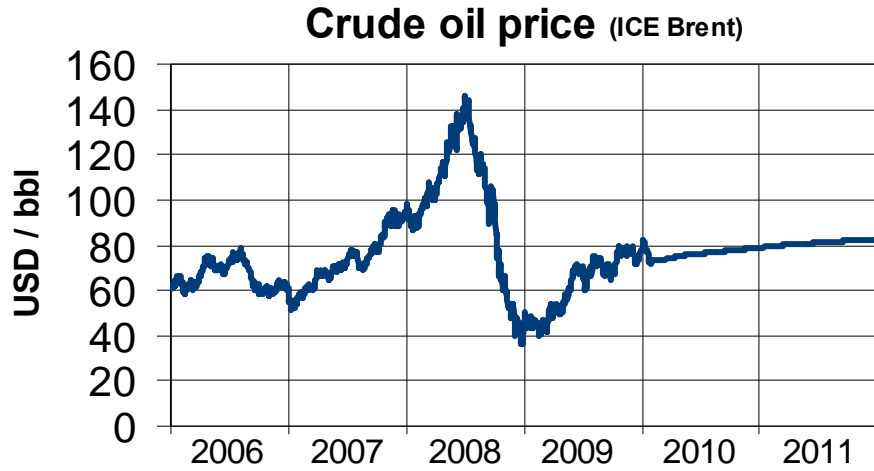
# Nord Pool year forwards



# Wholesale prices for electricity

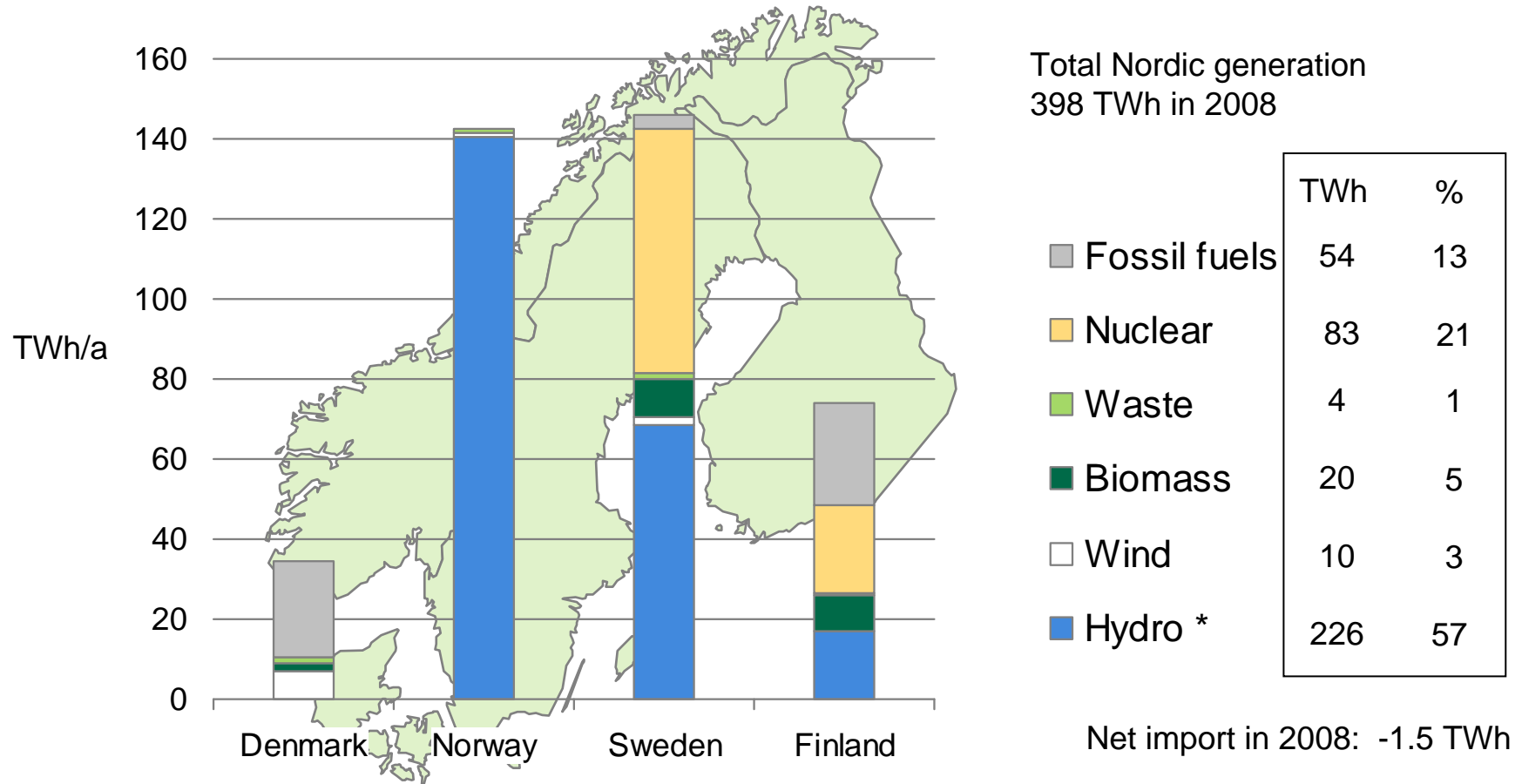


# Fuel and CO<sub>2</sub> allowance prices



Source: ICE, Nord Pool

# Nordic power generation mix



Source: Nordel

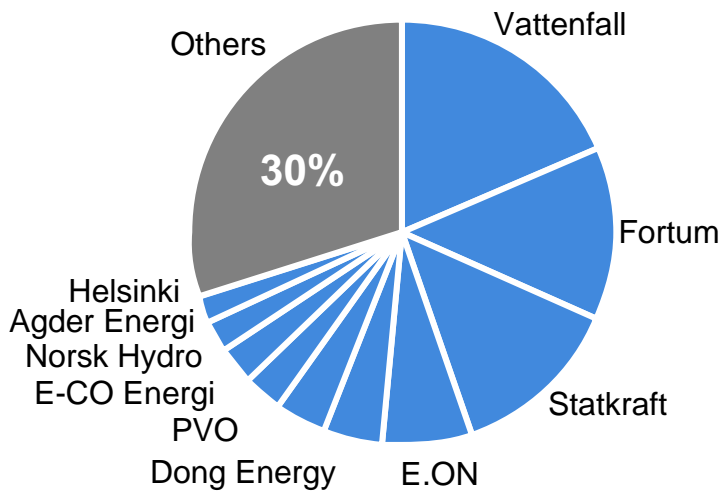
\*) Normal annual Nordic hydro generation 200 TWh, variation +/- 40 TWh.

# Still a highly fragmented Nordic power market

## Power generation

398 TWh

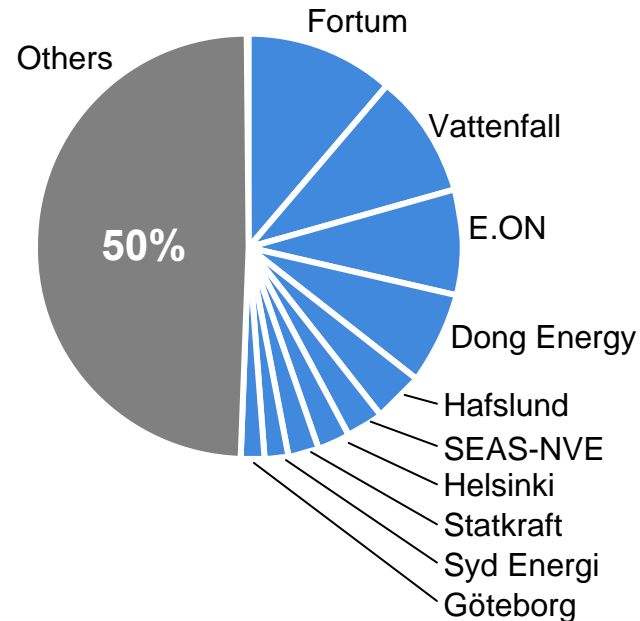
>350 companies



## Electricity distribution

14 million customers

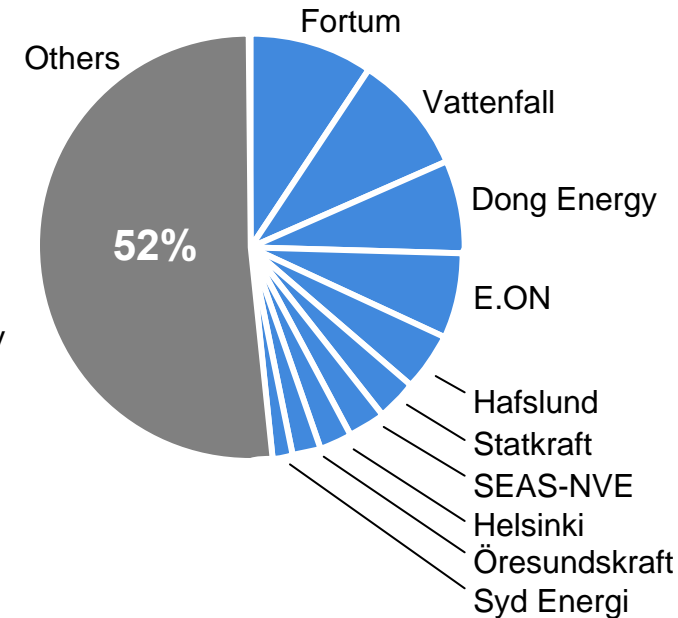
~500 companies



## Electricity retail

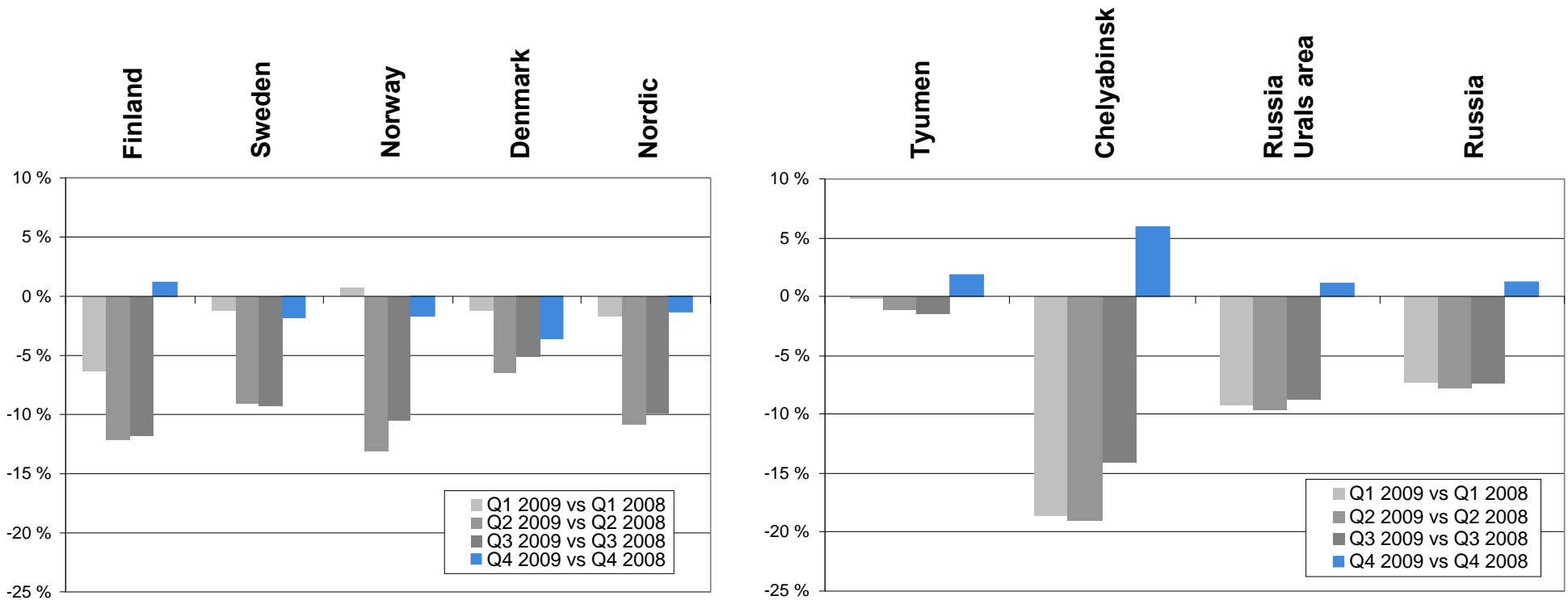
14 million customers

~350 companies



Current market shares based on 2008 figures.

# Signs of demand picking up towards the end of 2009



**2009 consumption decreased ~5% in the Nordic area**

372 TWh (393 TWh)

**2009 consumption decreased ~5% in Russia**

- +/- 0% in Tyumen
- -11% in Chelyabinsk

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



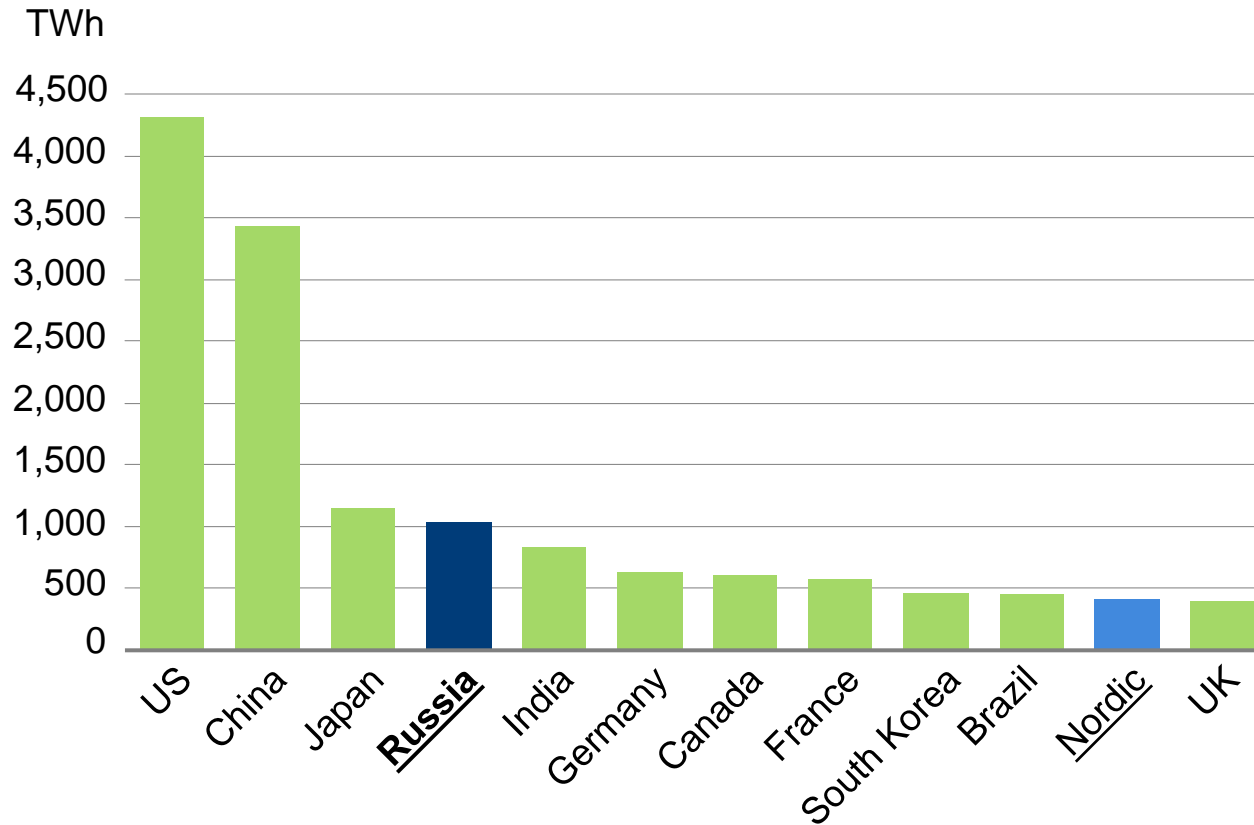
Fortum today

European power markets

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 adds ~16 TWh/a to Fortum's power generation and the heat sales double
- 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



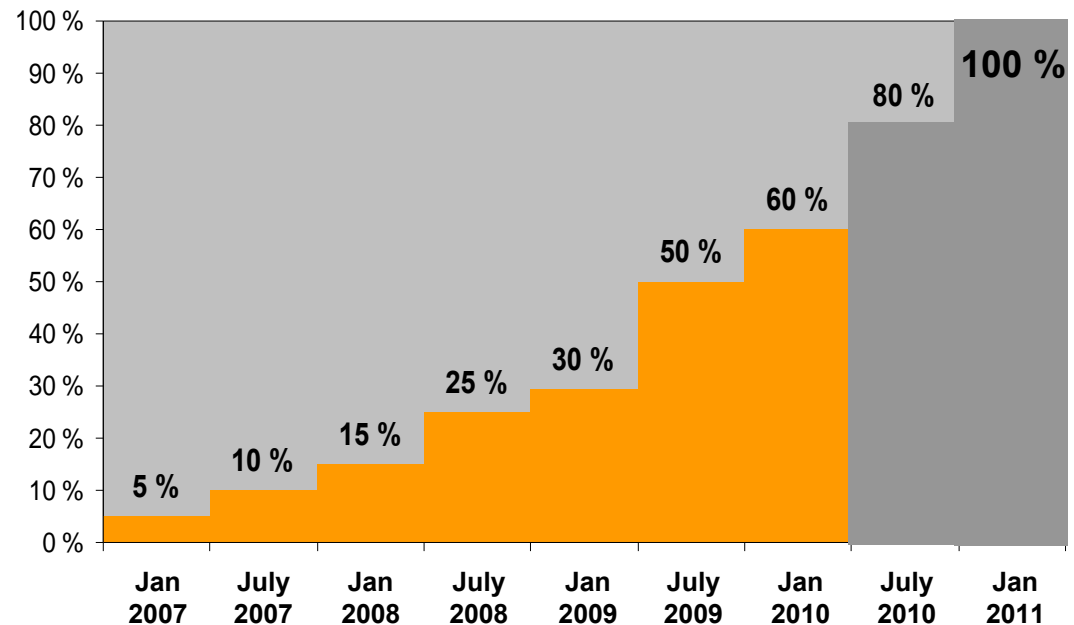
# Russian power industry reform has progressed well

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

# Further power market liberalisation

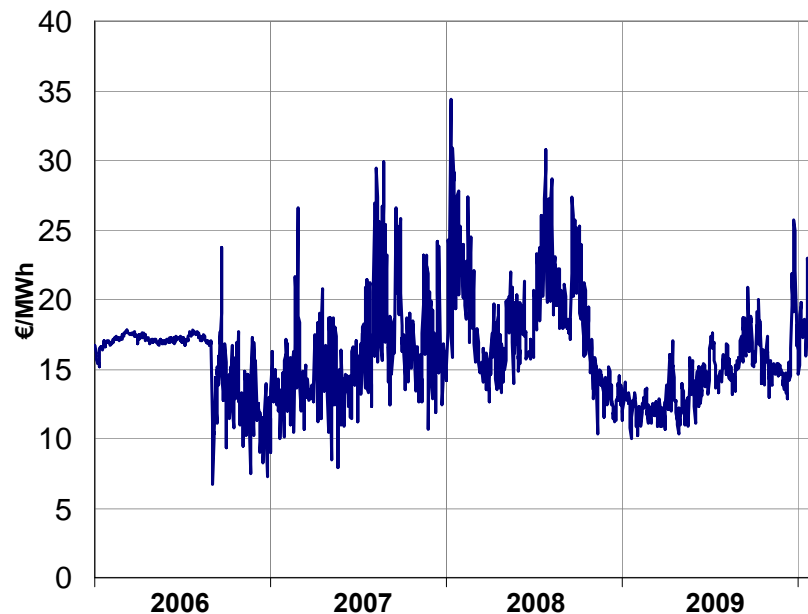
- Further liberalisation of energy market increased to 60% in January 2010
- The rate of liberalised volume is based on 2007 balance. All new capacity is sold with liberal prices
- The sales to households will remain regulated still after 2011

Share of liberalised trade for existing capacity



# Currently 60% of electricity sold with liberalised prices

## Urals power price<sup>1)</sup> development

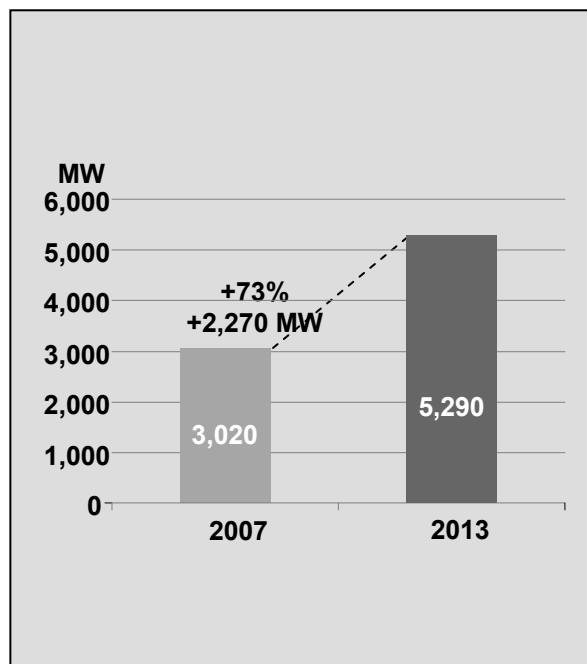


## Key electricity, capacity and gas prices in the OAO Fortum area

	2009	2008	Change, %
<b>Electricity spot price (market price), Urals hub, RUB/MWh</b>	<b>633</b>	<b>672</b>	<b>-6</b>
<b>Average regulated electricity price for OAO Fortum, RUB/MWh</b>	<b>533</b>	<b>475</b>	<b>+12</b>
<b>Average regulated capacity price, tRUB/MW/month</b>	<b>186</b>	<b>167.8</b>	<b>+12</b>
<b>Average limit gas price in Urals region, RUB/1000 m<sup>3</sup></b>	<b>1,782</b>	<b>1,560</b>	<b>+14</b>

<sup>1)</sup> In addition generators currently receive on average about 11 EUR/MWh capacity payment. Used EUR/RUB daily exchange rate

# Investment programme of OAO Fortum




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 (Kurgan Generation (49%))	- Gas	235		235
<b>Total</b>		<b>3,020</b>	<b>2,270</b>	<b>5,290</b>

# Efficiency improvement in Russia

## ~100 MEUR in 2011

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



Fortum today

European power markets

Russia

Financials and outlook

# Income statement

<b>MEUR</b>	<b>IV/2009</b>	<b>IV/2008</b>	<b>2009</b>	<b>2008</b>
Sales	1 563	1 602	5 435	5 636
Expenses	-1 041	-991	-3 653	-3 673
<b>Operating profit</b>	<b>522</b>	<b>611</b>	<b>1 782</b>	<b>1 963</b>
Share of profit of associates and jv's	22	48	21	126
Financial expenses, net	-39	-54	-167	-239
<b>Profit before taxes</b>	<b>505</b>	<b>605</b>	<b>1 636</b>	<b>1 850</b>
Income tax expense	-74	2	-285	-254
<b>Net profit for the period</b>	<b>431</b>	<b>607</b>	<b>1 351</b>	<b>1 596</b>
Non-controlling interests	25	44	39	54
EPS, basic (EUR)	0.46	0.64	1.48	1.74
EPS, diluted (EUR)	0.46	0.64	1.48	1.74

# Comparable and reported operating profit

	Operating profit IV/2009		Operating profit IV/2008		Operating profit 2009		Operating profit 2008	
	Comparable	Reported	Comparable	Reported	Comparable	Reported	Comparable	Reported
Power	394	330	378	470	1 469	1 335	1 528	1 599
Heat	103	108	109	155	227	248	250	307
Distribution	80	81	63	61	262	263	248	248
Markets	11	19	0	-29	22	22	-33	-35
Russia	7	7	-20	-19	-26	-26	-92	-91
Other	-25	-23	-22	-27	-66	-60	-56	-65
<b>Total</b>	<b>570</b>	<b>522</b>	<b>508</b>	<b>611</b>	<b>1 888</b>	<b>1 782</b>	<b>1 845</b>	<b>1 963</b>

The decline in the net profit is also explained by:

- Share of profit of associates and joint ventures EUR 105 million lower than in 2008
- One-time tax booking in 2008 (changes in a corporate tax rate in Sweden and in Russia)

# Cash flow statement

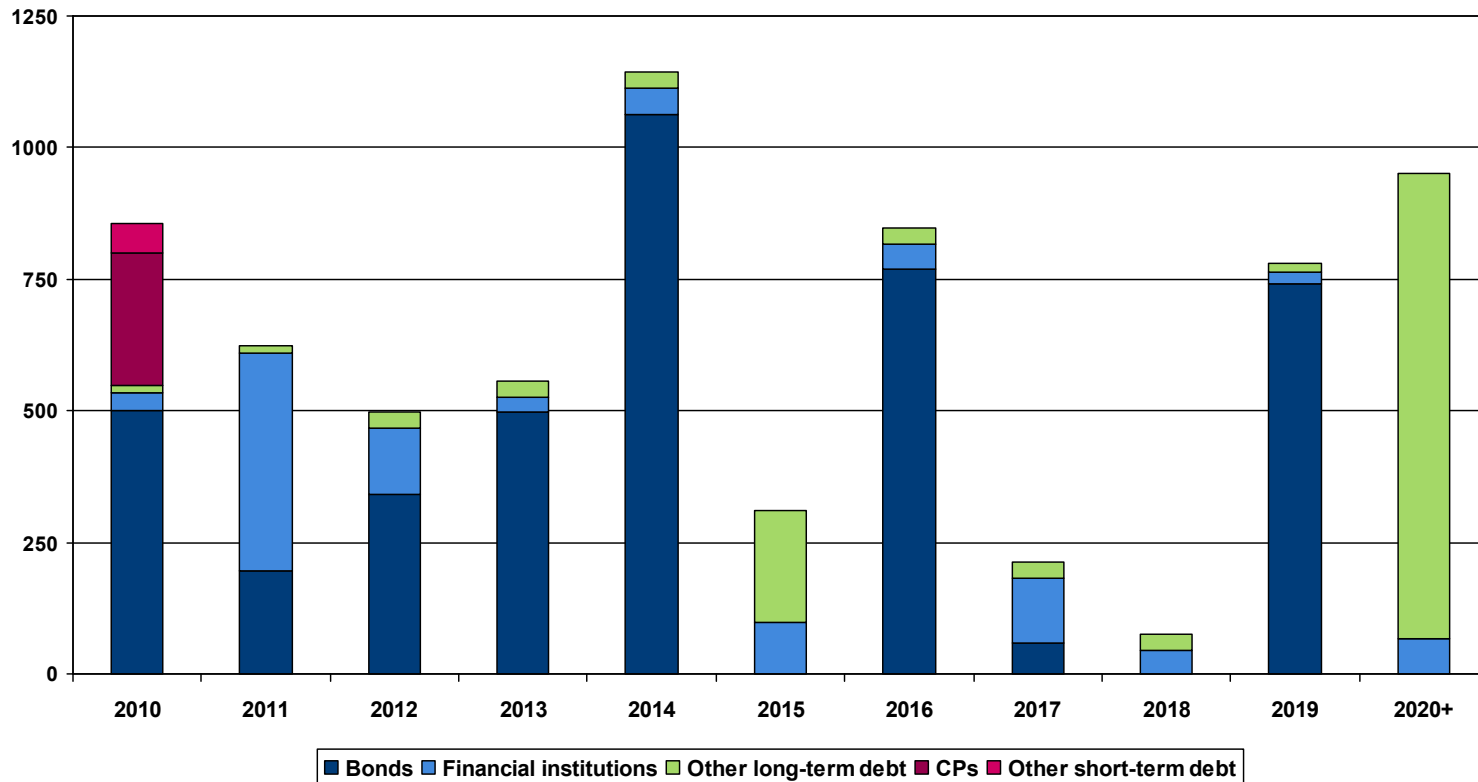
MEUR	IV/2009	IV/2008	2009	2008
<b>Operating profit before depreciations</b>	658	743	2 292	2 478
Non-cash flow items and divesting activities	-4	-237	46	-275
Financial items and fx gains/losses	-102	326	146	233
Taxes	-34	-53	-239	-332
<b>Funds from operations (FFO)</b>	<b>518</b>	<b>779</b>	<b>2 245</b>	<b>2 104</b>
Change in working capital	-122	-217	19	-102
<b>Total net cash from operating activities</b>	<b>396</b>	<b>562</b>	<b>2 264</b>	<b>2 002</b>
Paid capital expenditures	-266	-338	-845	-1 018
Acquisition of shares	-28	-28	-85	-1 242
Other investing activities	-27	23	-44	-22
<b>Cash flow before financing activities</b>	<b>75</b>	<b>219</b>	<b>1 290</b>	<b>-280</b>

# Key ratios

<b>MEUR</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
EBITDA	2 292	2 478	2 298
Net cash flow from operations	2 264	2 002	1 670
Interest-bearing net debt	5 969	6 179	4 466
Equity	8 491	8 411	8 651
Balance sheet total	19 841	20 278	17 674
Net debt/EBITDA*	2.6	2.5	2.2
Return on capital employed (%)*	12.1	15.0	14.0
Return on shareholders' equity (%)*	16.0	18.7	15.8

\*2007 adjusted for REC and Lenenergo gains

# Debt maturity profile



	<b>MEUR</b>
2010	857
2011	626
2012	499
2013	558
2014	1,146
2015	310
2016	846
2017	211
2018	75
2019	779
2020+	952

Duration (years)

Average interest rate (incl. swaps and forwards)

Portion of floating / fixed debt

per 31 December, 2009

1.8

3.4 %

62 / 38 %

per 31 December, 2008

1.5

4.7 %

64 / 36 %

# Current Fortum Group financial targets

- Return on capital employed 12%
- Return on shareholder's equity 14%
- Net debt/EBITDA 3.0–3.5

# Liquidity

MEUR	Available	Outstanding	Total amount
<b><u>SHORT TERM FINANCING</u></b>			
<b>Commercial Paper Programmes</b>			
<i>Finnish CP Programme</i>	422	78	500
<i>SEK 5.000 M Swedish CP Programme</i>	316	172	488
	<b>738</b>	<b>250</b>	<b>988</b>
<b><u>LIQUID FUNDS AND COMMITTED CREDIT LINES</u></b>			
<b>Committed Credit Lines</b>			
<i>Short Term</i>	211	0	211
<i>Long Term</i>	2 700	0	2 700
	<b>2 911</b>	<b>0</b>	<b>2 911</b>
<b>Liquid Funds</b>			
<i>Cash and cash equivalents</i>	493		
<i>Bank Deposits over 3 months</i>	397		
	<b>890</b>		
<i>of which in Russia</i>	632		
<b>Total Available Cash and Committed Financing</b>	<b>3 801</b>		

# Hedging of Power division's Nordic sales

## Status at the end of December 2009

(Status at the end of Sep 2009)

	<u>Hedge ratio</u>	<u>Hedge price</u>
2010	~ 70% (~65%)	~ EUR 44 per MWh (~ EUR 44 per MWh)
2011	~ 40% (~35%)	~ EUR 42 per MWh (~ EUR 42 per MWh)

# Fortum in a strong position

- Flexible, low-cost and climate-benign generation portfolio
- Russian power reform proceeding and the results of OAO Fortum improving as planned
- Nordic power demand recovering
- Good hedging positions
- Strong financial position and liquidity



 **Fortum**