

Driving strategic value in Russia through M&A

Handelsbanken Capital Markets 4th Annual Russia Seminar
Helsinki, 2 June 2010

Fortum Corporation
Kari Kautinen, Vice President M&A



Fortum Corporation

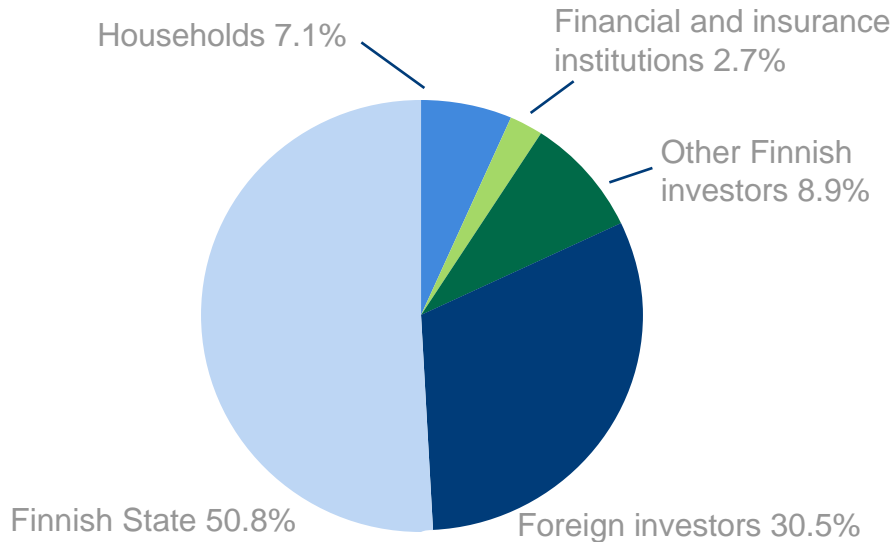
Power sector reform in Russia

Fortum's M&A in Russia

A leading Nordic Power and Heat company

Fortum's shareholders

30 April 2010

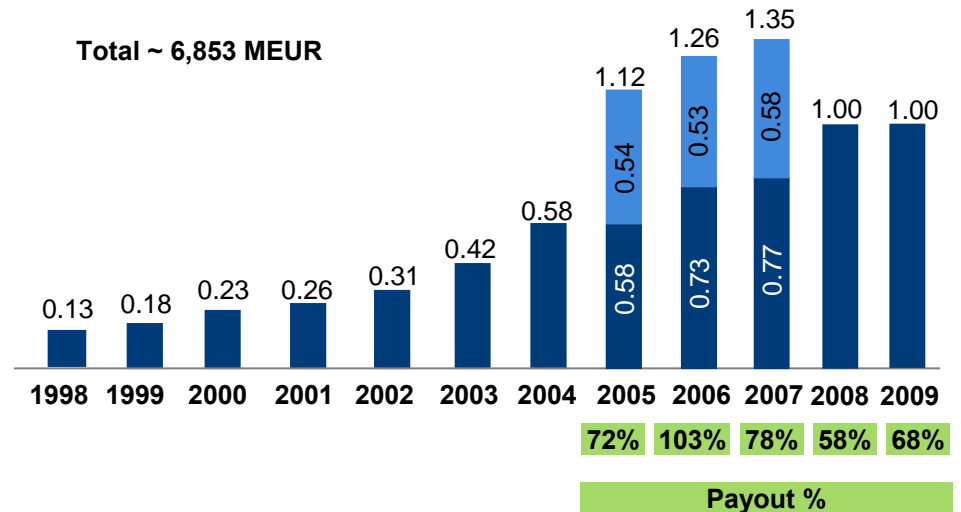


- Listed at the Helsinki Stock Exchange 1998
- Approximately 90,000 shareholders
- Among the most traded shares in Helsinki stock exchange
- Market cap ~17 billion euros

Dividend per share

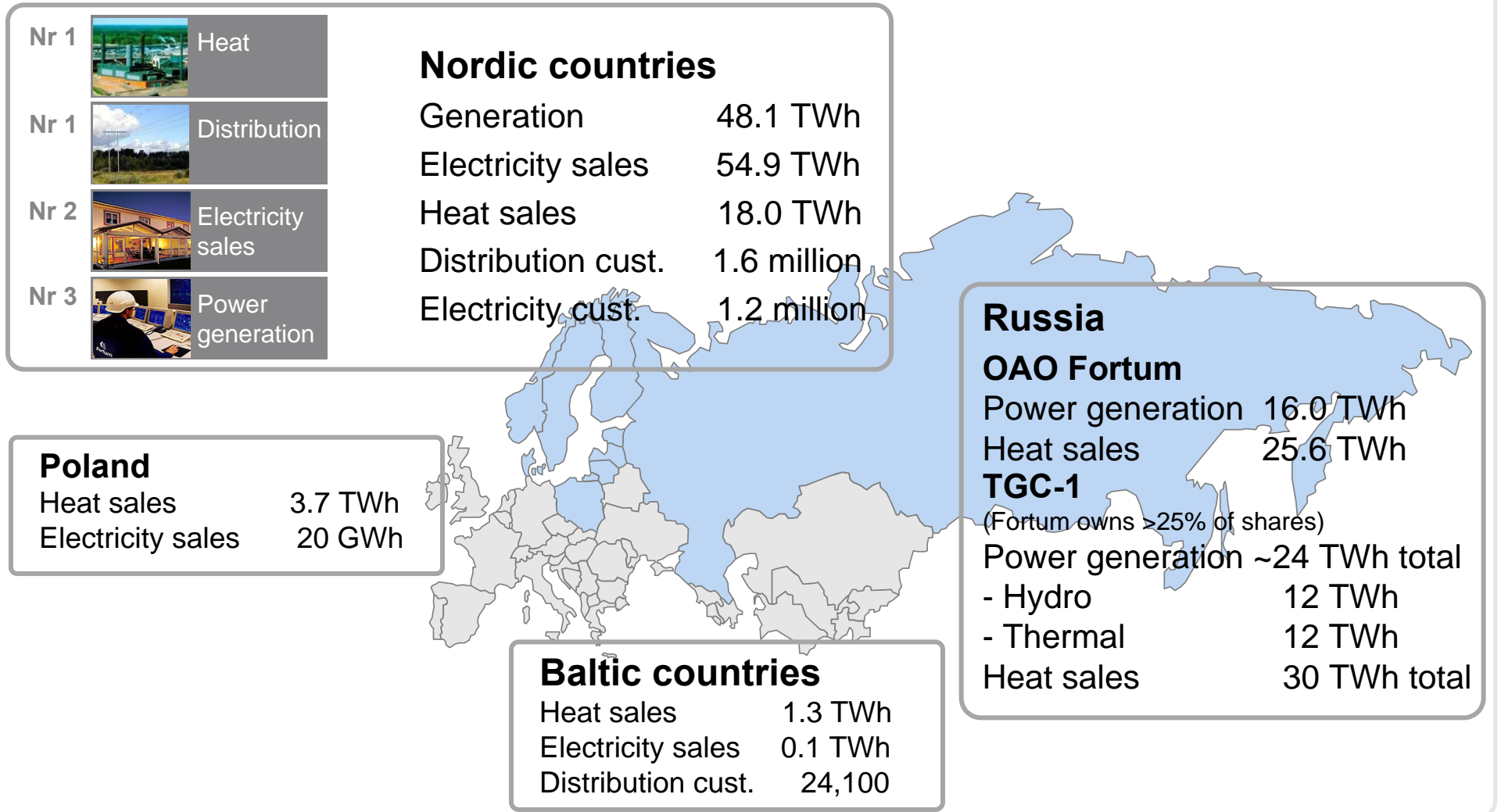
EUR

Total ~ 6,853 MEUR



- Dividend in 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

Geographical presence today

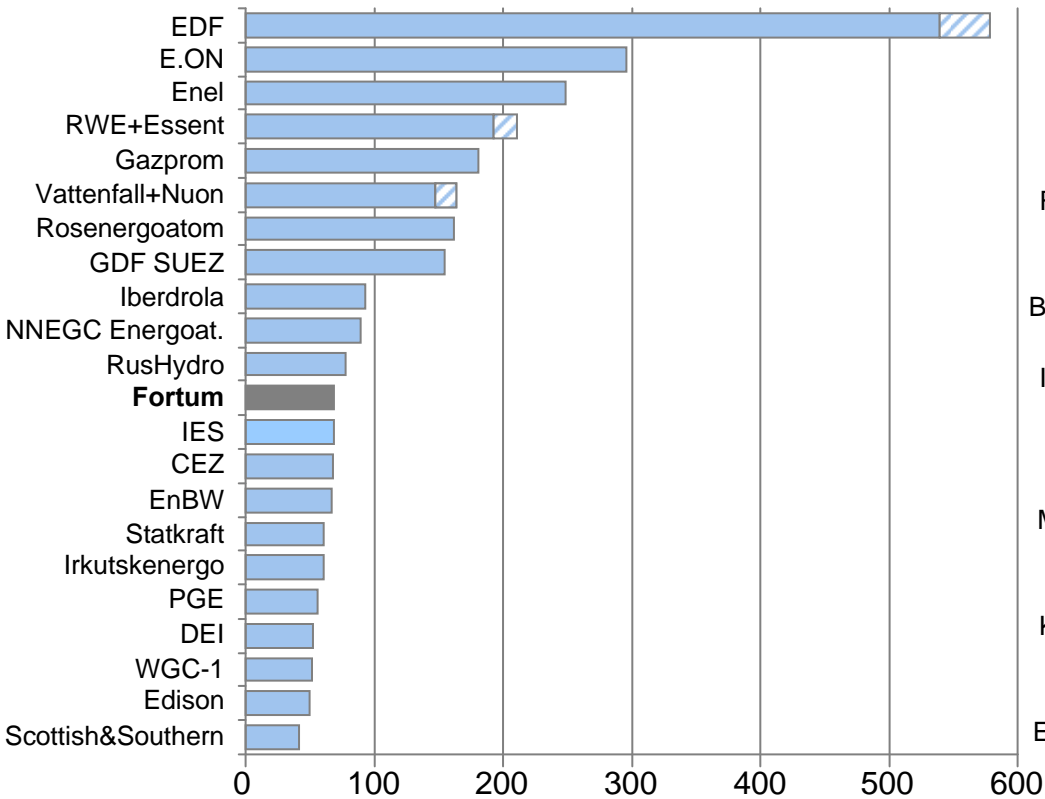


Fortum mid-sized European power generation player, Global #4 in heat

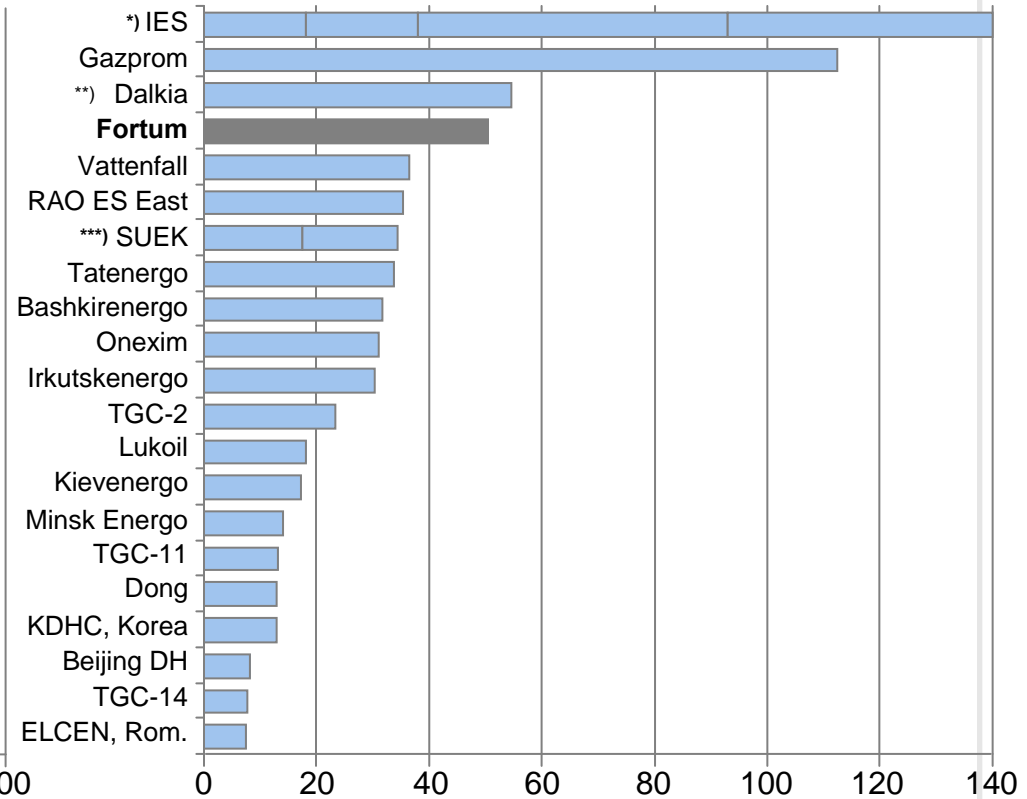
Power generation

Heat production

Largest producers in Europe and Russia, 2008 TWh



Largest global producers, 2008 TWh

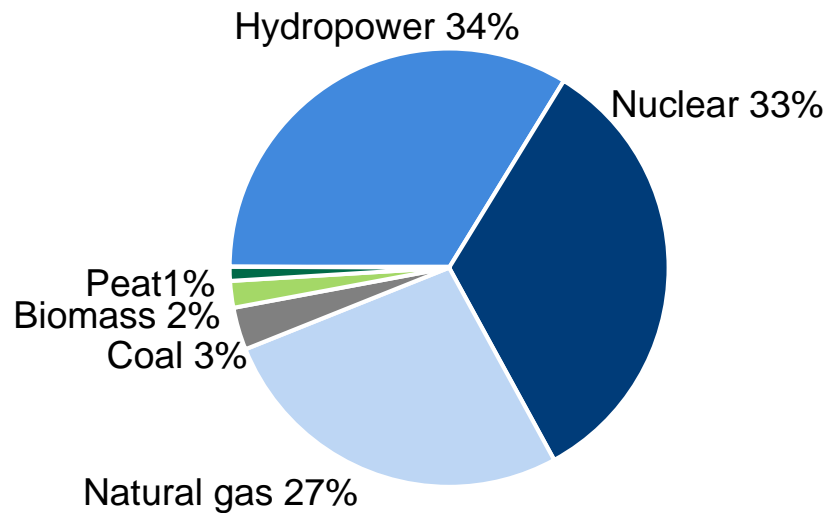


* incl. TGC-5, TGC-6, TGC-7, TGC-9, *** incl. TGC-12, TGC-13

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

A market driven production company – flexible and environmentally friendly portfolio

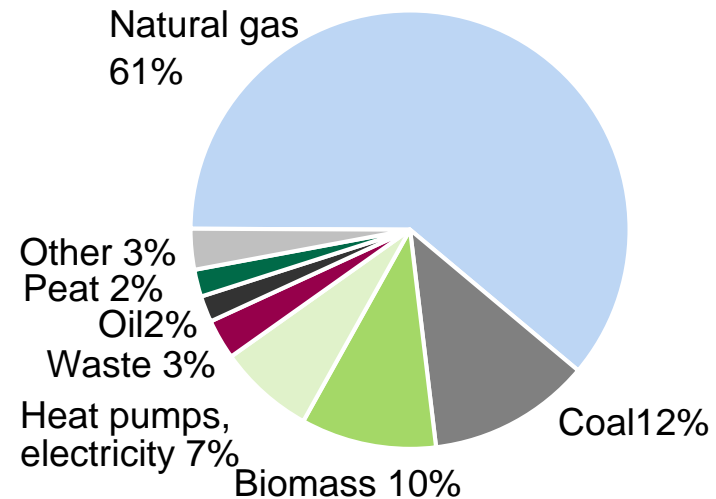
Fortum's power generation



65.3 TWh in 2009

(Power generation capacity 13 940 MW)

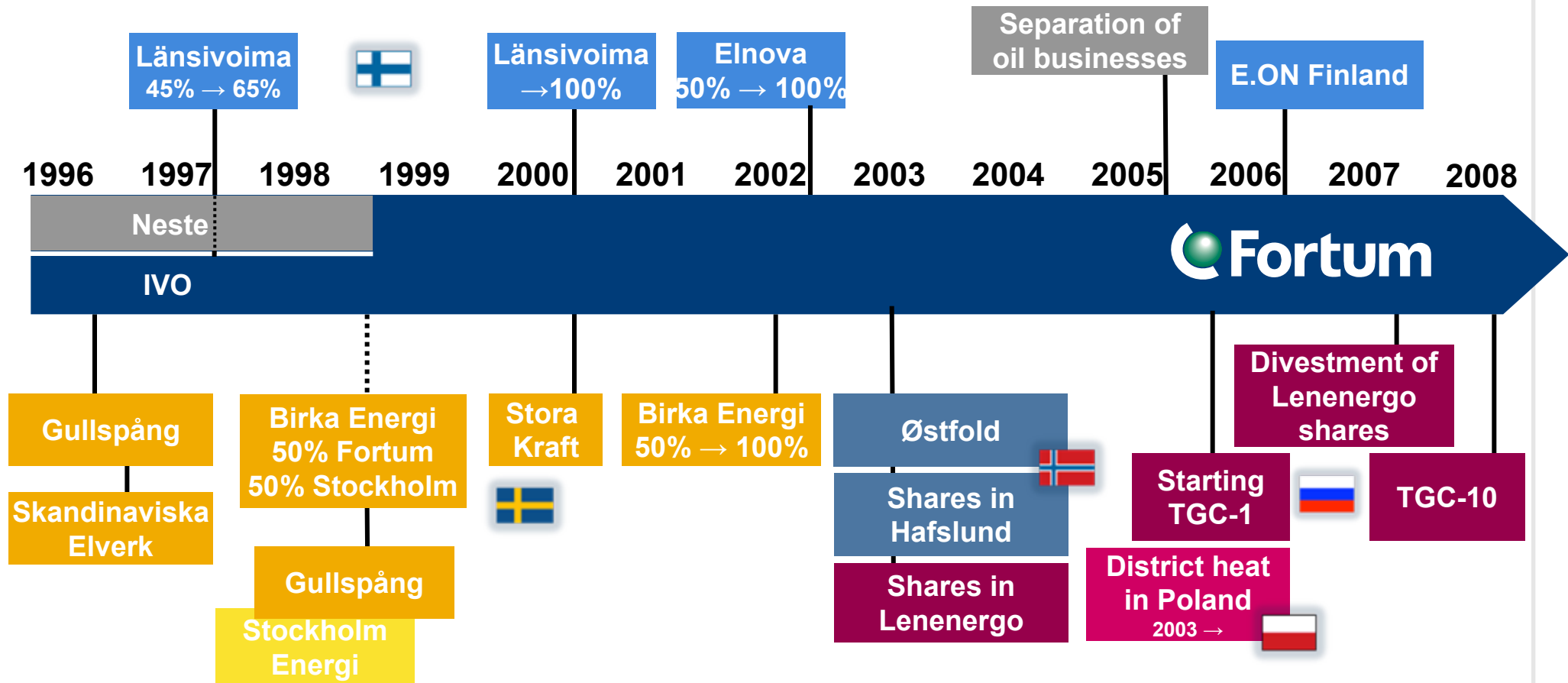
Fortum's heat production



48.8 TWh in 2009

(Heat production capacity 24 330 MW)

Fortum's strategic route



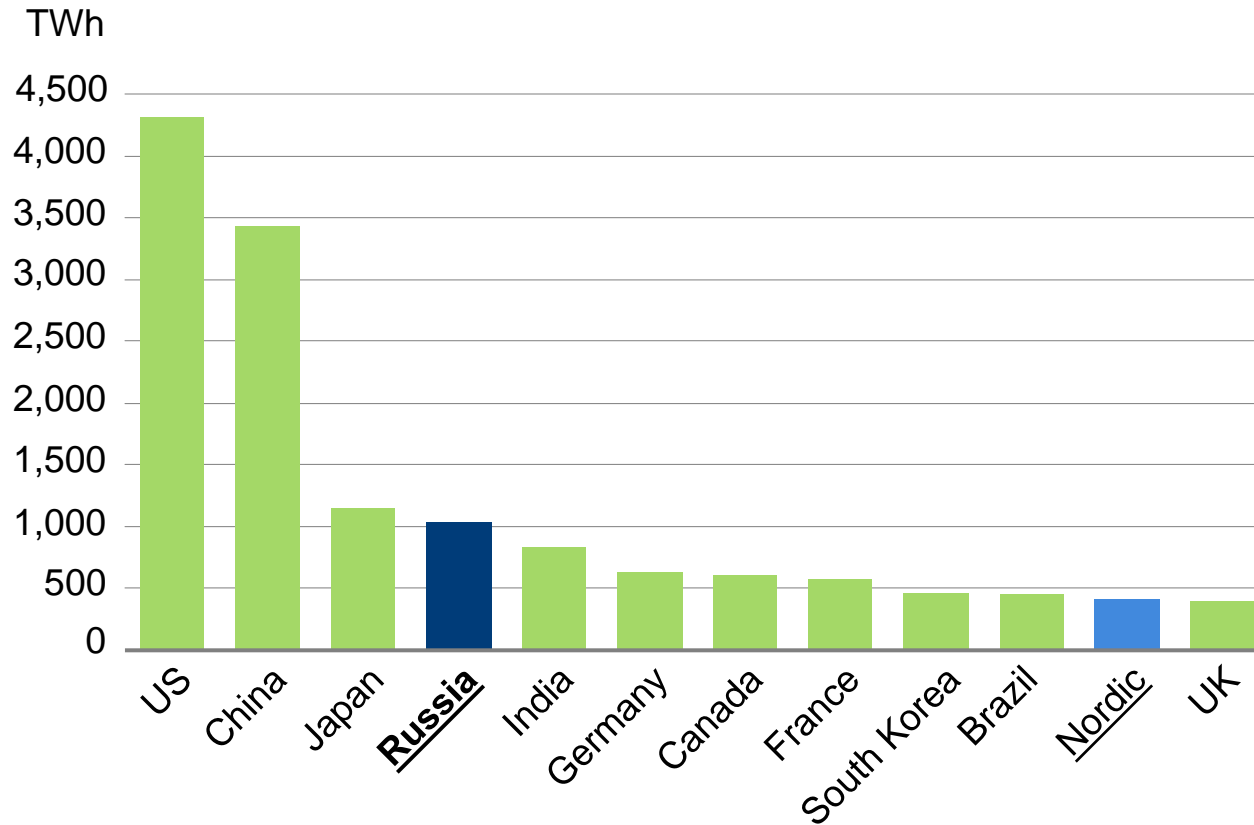
A photograph of a worker in a blue and green jacket operating industrial machinery in a power plant. The worker is in the background, slightly out of focus, looking at a piece of equipment. The foreground shows a complex array of pipes, valves, and gauges, including a prominent pressure gauge on the right. The overall scene is industrial and brightly lit.

Fortum Corporation

Power sector reform in Russia

Fortum's M&A in Russia

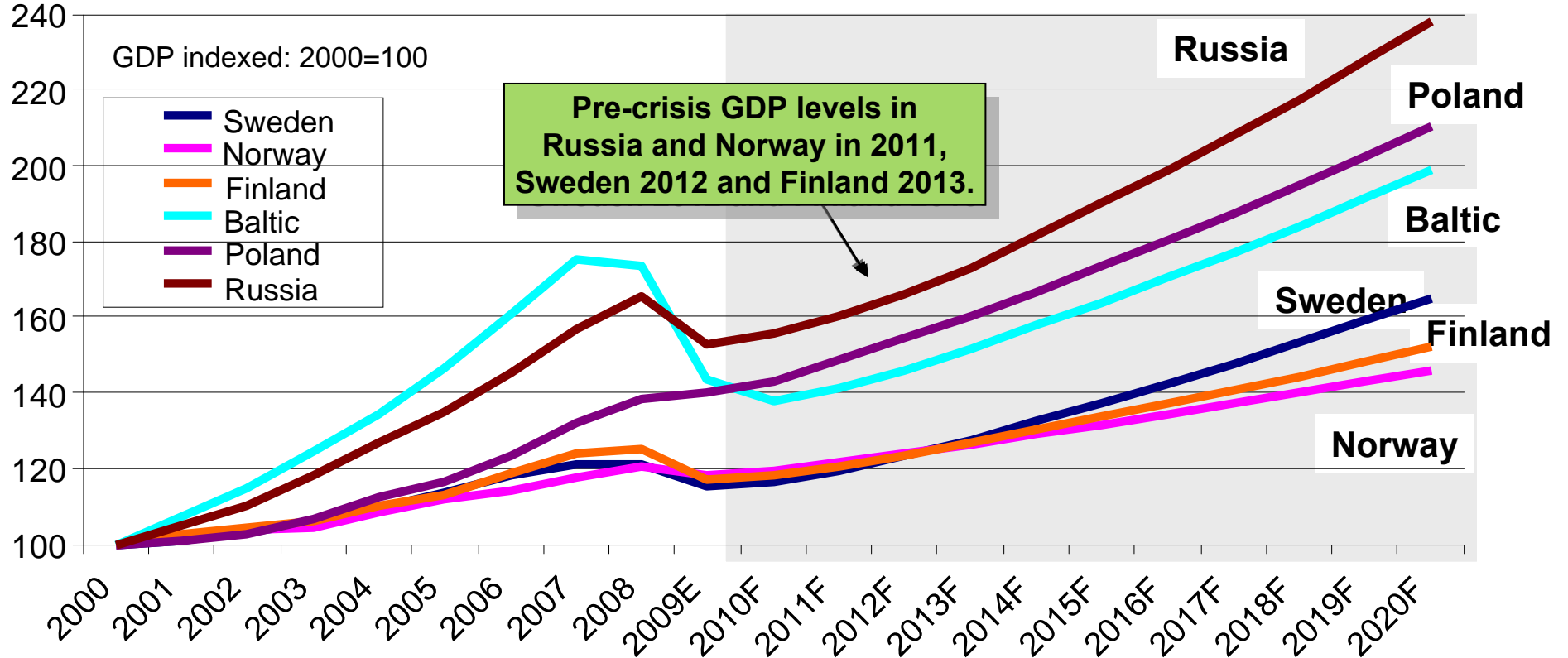
Russia is the World's 4th largest power market



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

Russia is the fastest growing market area for Fortum

Forecast GDP in Fortum's market areas



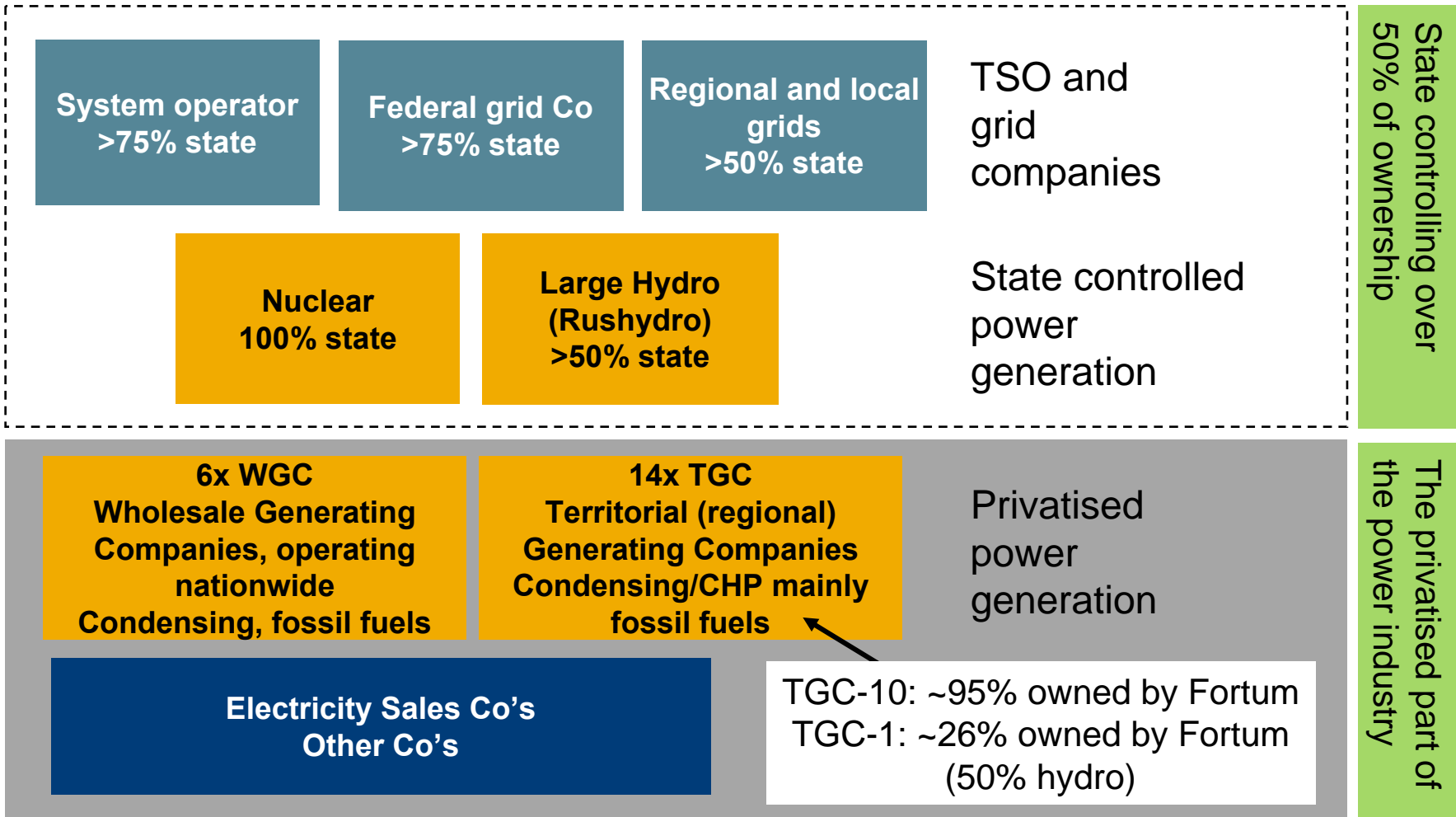
Source: IMF World Economic Outlook October 2009 to 2014, and average 2013-2014 growth for period 2015-2020

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 in Siberia	2003 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

Completed

Russian power reform – the outcome from Fortum’s point of view



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

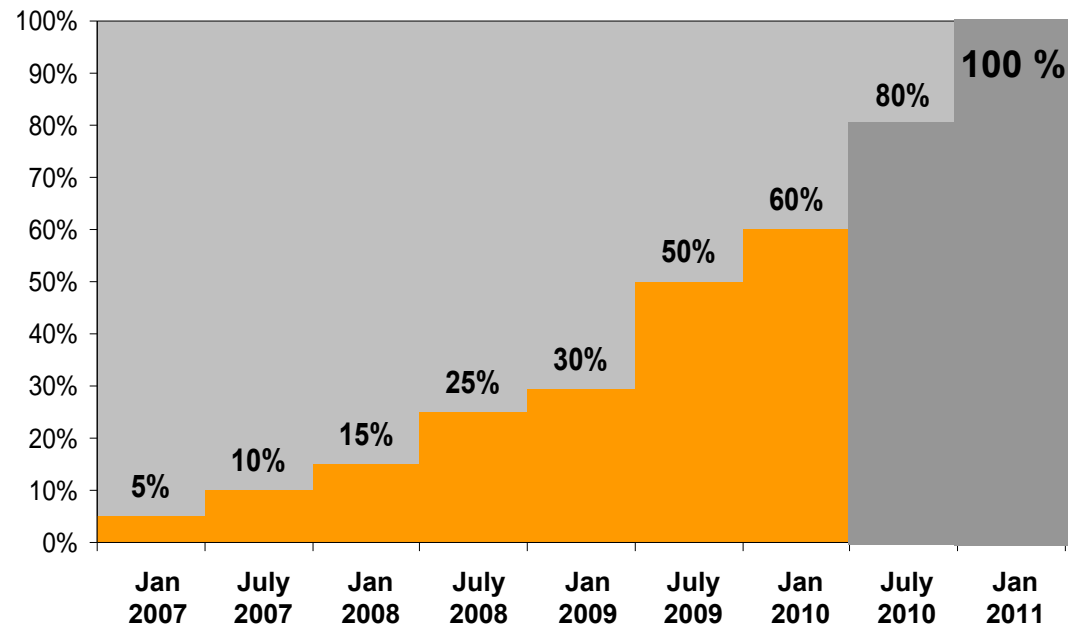
- Capacity market is the intended mechanism for earning a (reasonable) return on invested capital
- Capacity prices are a big part of a power generator's income
 - a typical CHP plant ~35%, CCGT ~55% of revenues
- In the day ahead (spot) market, the price mechanism is a day ahead hourly auction, variable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

Power market liberalisation

– day ahead wholesale power market will be 100% liberalised in 7 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 ($\leq 15\%$ of total) will remain regulated after 2011

Share of liberalised trade in day ahead spot market

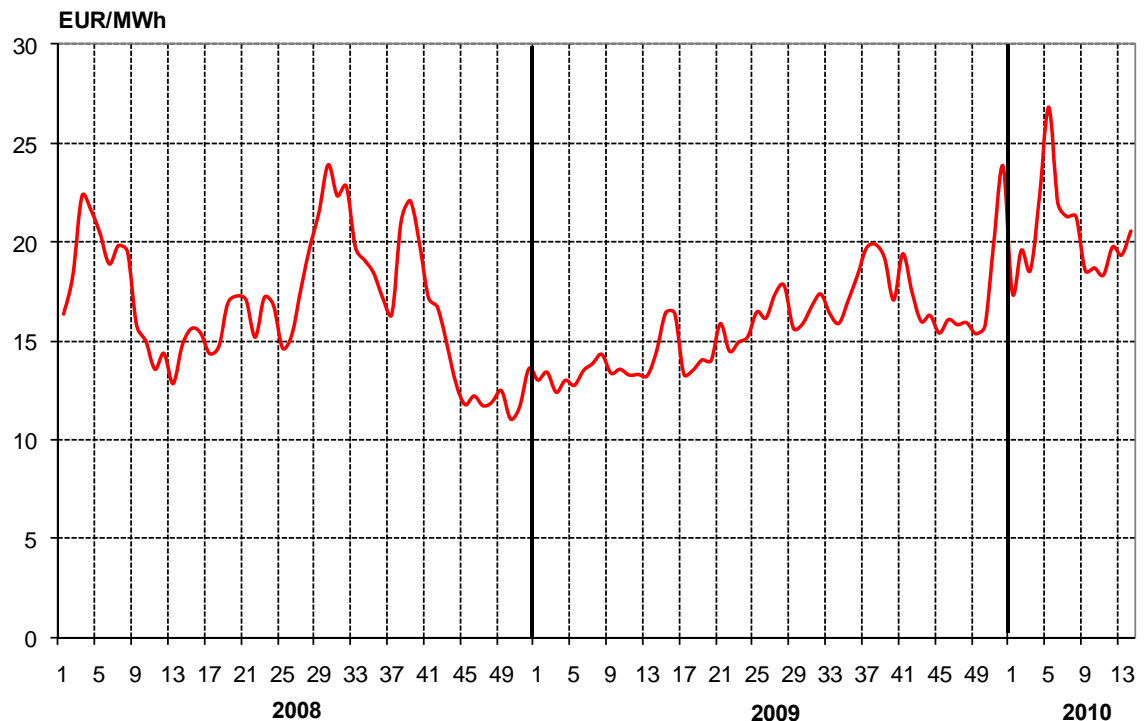


Day ahead wholesale market prices

– 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
- Capacity auctions for both “old” and “new” capacity
- Old capacity (pre 2007) and new capacity priced differently
 - Old capacity prices will be based on the auction outcomes; first auction for 2011 in October 2010
 - New capacity under capacity supply agreements will receive guaranteed payments in the auctions
- 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 (day ahead) 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

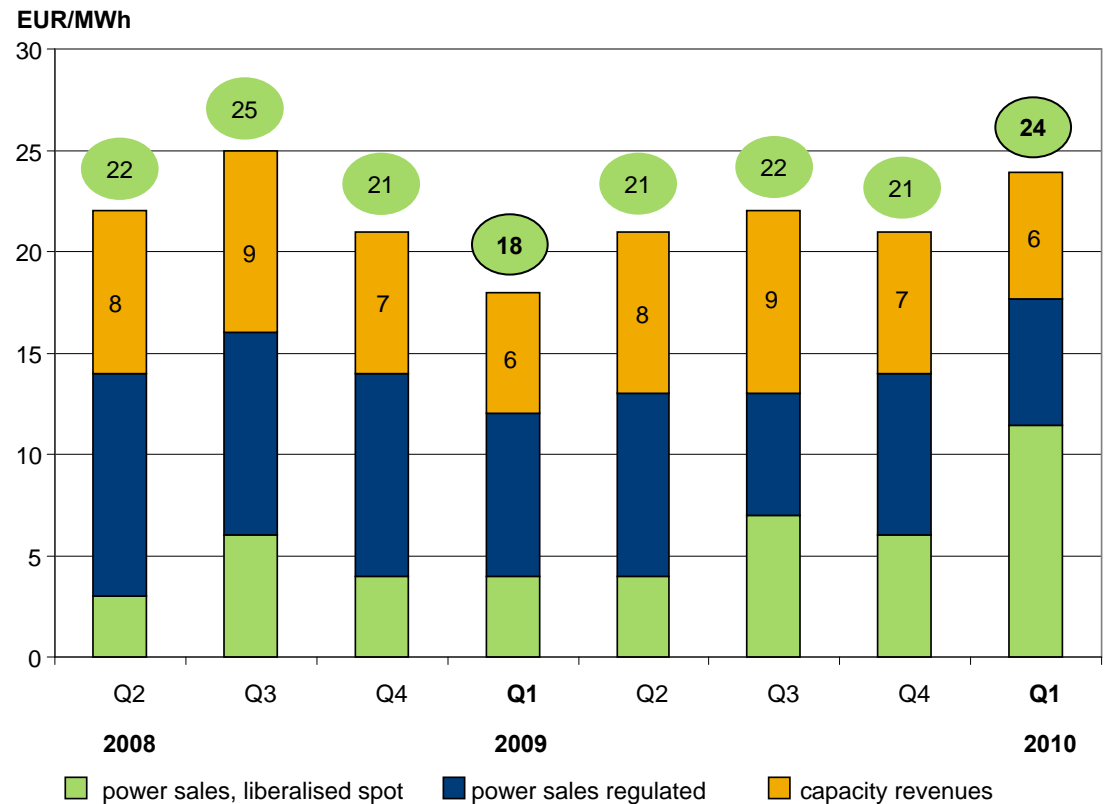
*Rate of return 14%, payback period 15 years. YTM of 8.5% for local government bonds (now ~7%)

** 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 capacity payments for new capacity; to be commissioned from Q3/2010**

Achieved total power price, Russia Division*



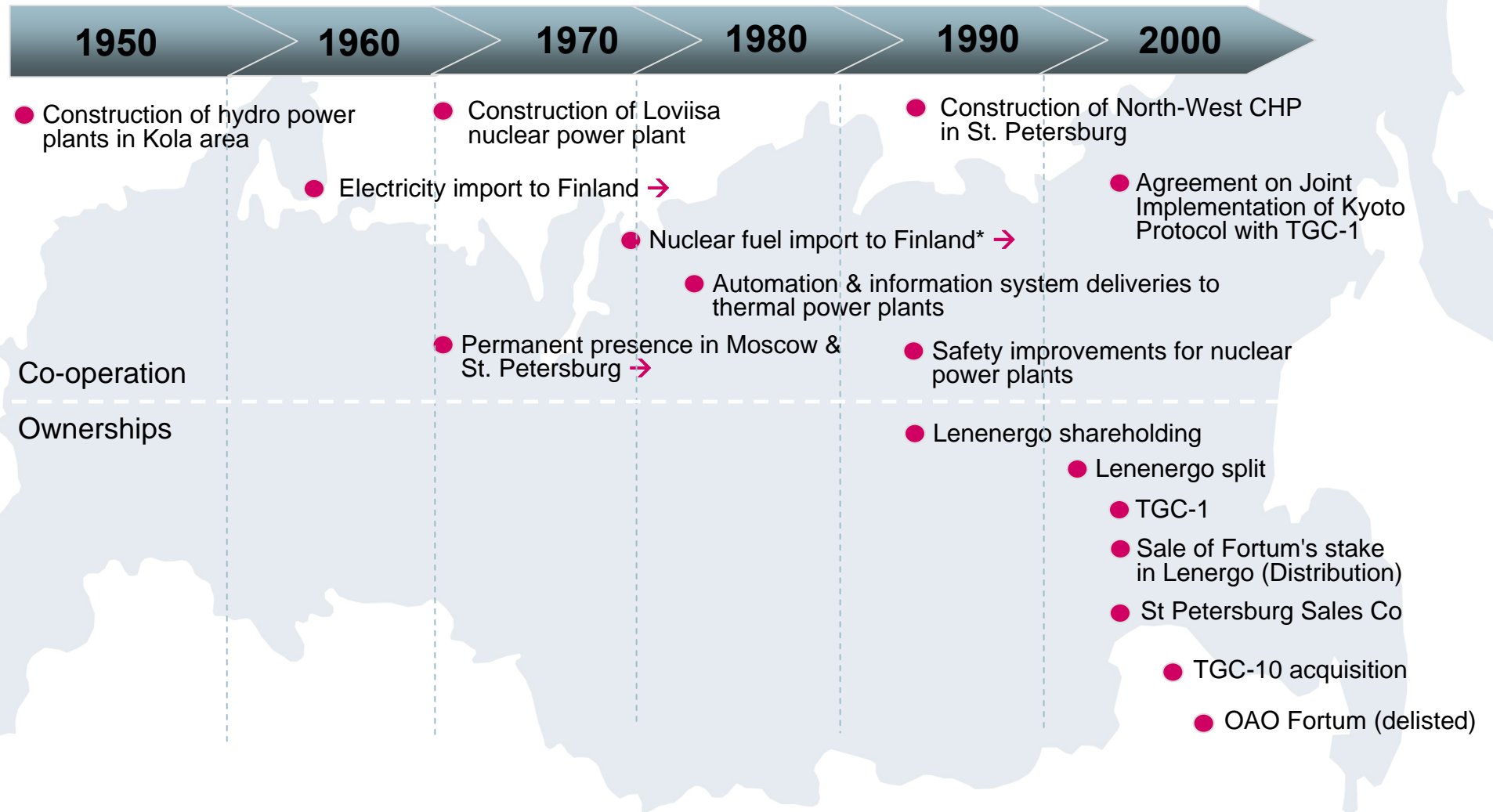
A photograph of a worker in a blue and green jacket operating industrial machinery in a power plant. The worker is on the left, and the machinery, including pipes and gauges, is on the right. The background is slightly blurred.

Fortum Corporation

Power sector reform in Russia

Fortum's M&A in Russia

Fortum has long experience of successful co-operation with Soviet Union and Russia



*) Including single largest purchase agreement of uranium with TVEL

Ownership steps from Lenenergo to TGC-1

1995 - 2005: Becoming owner in Lenenergo; integrated utility company in St. Petersburg area

- 1995 Obtaining first shares in Lenenergo
- 1/2003 Obtaining additional shares through swap with E.ON
- 2003-2005 Obtaining additional shares; finally owning about 31% of capital and 30% of votes

10/ 2005: Spin off transmission, generation business and electricity sales from Lenenergo

In addition to Lenenergo (distribution only) ownership Fortum receives stakes in

- St. Petersburg Generating Company; electricity generation and heat business
- St. Petersburg sale company; electricity sales business
- St. Petersburg Main Power Circuit Company; electricity transmission

10/2006: Fortum purchases additional 12.5% stake in St. Petersburg generation company

11/2006: Territorial Generation Company 1 (TGC-1) merger completed

- Merger of three electricity and heat companies in North Western Russia
- Merger of St. Petersburg Generating Company, Kolskaya Generating Company and Karelenergogeneratsija
- Fortum to own >25% stake in TGC-1

8/2007: Fortum sells Lenenergo with after tax profit of 232 M€

9/2007: Fortum participated in TGC-1 share issue; maintaining >25% stake

Fortum's current ownership from Lenenergo restructuring process

- Stakes in TGC 1 and St. Petersburg Sale Company

Ownership steps from TGC-10 to OAO Fortum

2/2008: Acquisition of shares in TGC-10

- As a purchase price 0.8 Billion € for 29% stake in company
- Equity injection share issue 1.3 Billion € (cash stayed in the company)
- Fortum's ownership to 76% in TGC-10
- Estimated annual efficiency improvements of at least 30 Million €

4/2008: Mandatory offer to minority shareholders

- Mandatory offer completed at 10/2008. Fortum's ownership 93.4%
- Total investment about 2.5 Billion € of which 1.3 Billion € new issued new shares

4/2008: Start of integration process

10/2008 and 11/2008: Delisting of TGC-10 from RTS and MICEX

- Annual efficiency improvements are expected to be appr. 100 Million € by 2011

4/2009: Rebranding TGC-10 to OAO Fortum

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 18 TWh/a to Fortum's power generation and the heat sales double
- Annual efficiency improvement approximately EUR 100 million in 2011
- Fortum's management model in place since September 2008

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

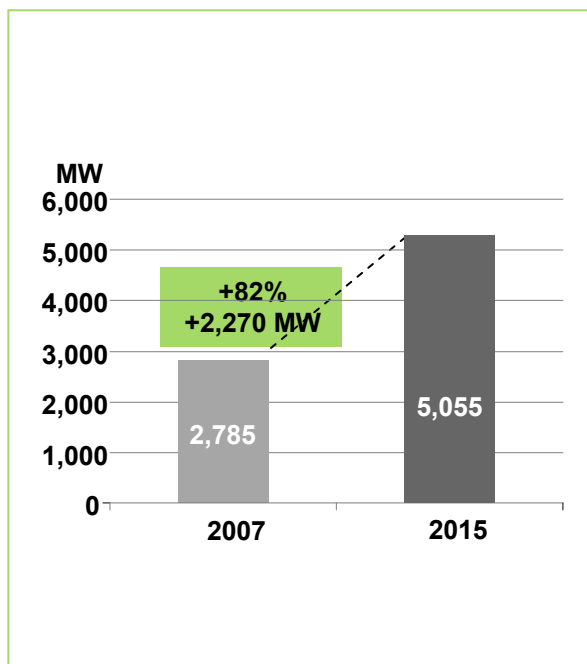


OAO Fortum in brief

- Fortum holding now is about 95%.
- OAO Fortum operates in the heart of Russia's oil and gas producing regions.
- 8 existing power plants, district heating in 3 cities, 2 maintenance companies.
- Electricity capacity now 2,800 MW, to increase up to 5,100 MW.
- Heat capacity 15,800 MW, main heat supplier in the area.
- Production in 2009 16 TWh/a electricity and 26 TWh/a heat.
- Personnel is about 4,700.



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



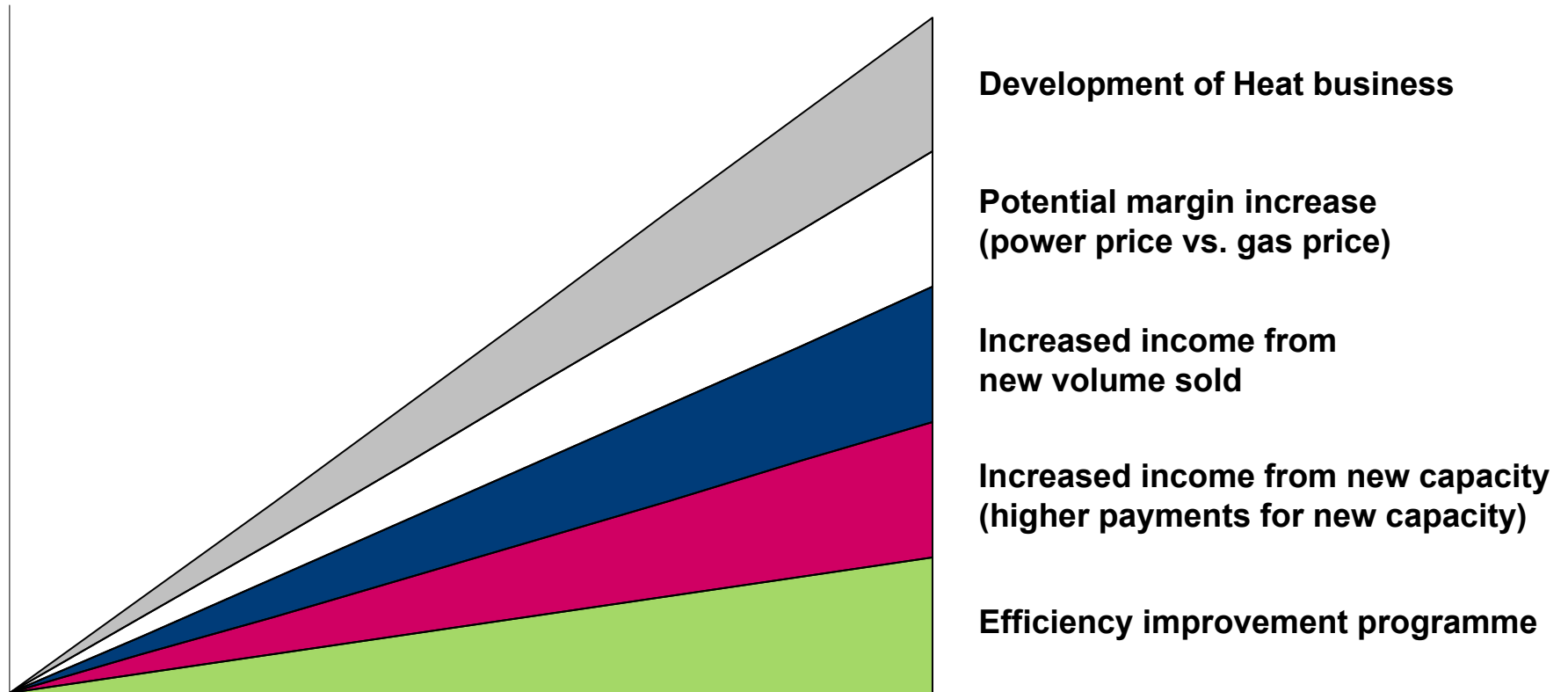
Plant	Fuel type	Power generation capacity (MW)		
		Existing	Planned	Total
Tyumen CHP-2	Gas	755	450 (Condensing)	1,205
Tyumen CHP-1, Q3/2010	Gas	472	190 (CHP/Condensing)	662
Tobolsk CHP, Q3/2010	Gas	452	210 (Condensing)	662
Chelyabinsk CHP-3, Q4/2010	Gas	360	220 (CHP/Condensing)	580
Chelyabinsk CHP-2	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

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

Fortum Corporation – 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 one of the lowest among European power utilities
- Significant growth in Russia through the investment and efficiency improvement programmes
- Efficiency, accountability and simplicity – new organisation with new potential
- Strong financial performance and financial headroom

