



**Interim Report  
January - September 2008**

22 October 2008

# Disclaimer

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

# Progress in power markets

- EU Member States found a political agreement on the energy internal market package
- Power market integration is proceeding
  - Market coupling between Nord Pool and the German EEX started on 29 September but is currently suspended due to technical problems
  - Market coupling to be extended to cover the whole Central Western Europe by the end of 2009
- Russian power market reform is proceeding as planned
- The new climate and energy strategy for Finland to be released at the beginning of November
- Volatile commodity prices - declined since July

# Fortum's third quarter

- TGC-10
  - mandatory offer
  - new organisation and Fortum's management model
- Markets turn-around programme started
- Investment programme proceeding
- Corporate transactions
  - Hafslund Infratek ASA
  - Jyväskylän Energiatuotanto Oy (a CHP-plant in Finland)
- Strong balance sheet and good liquidity

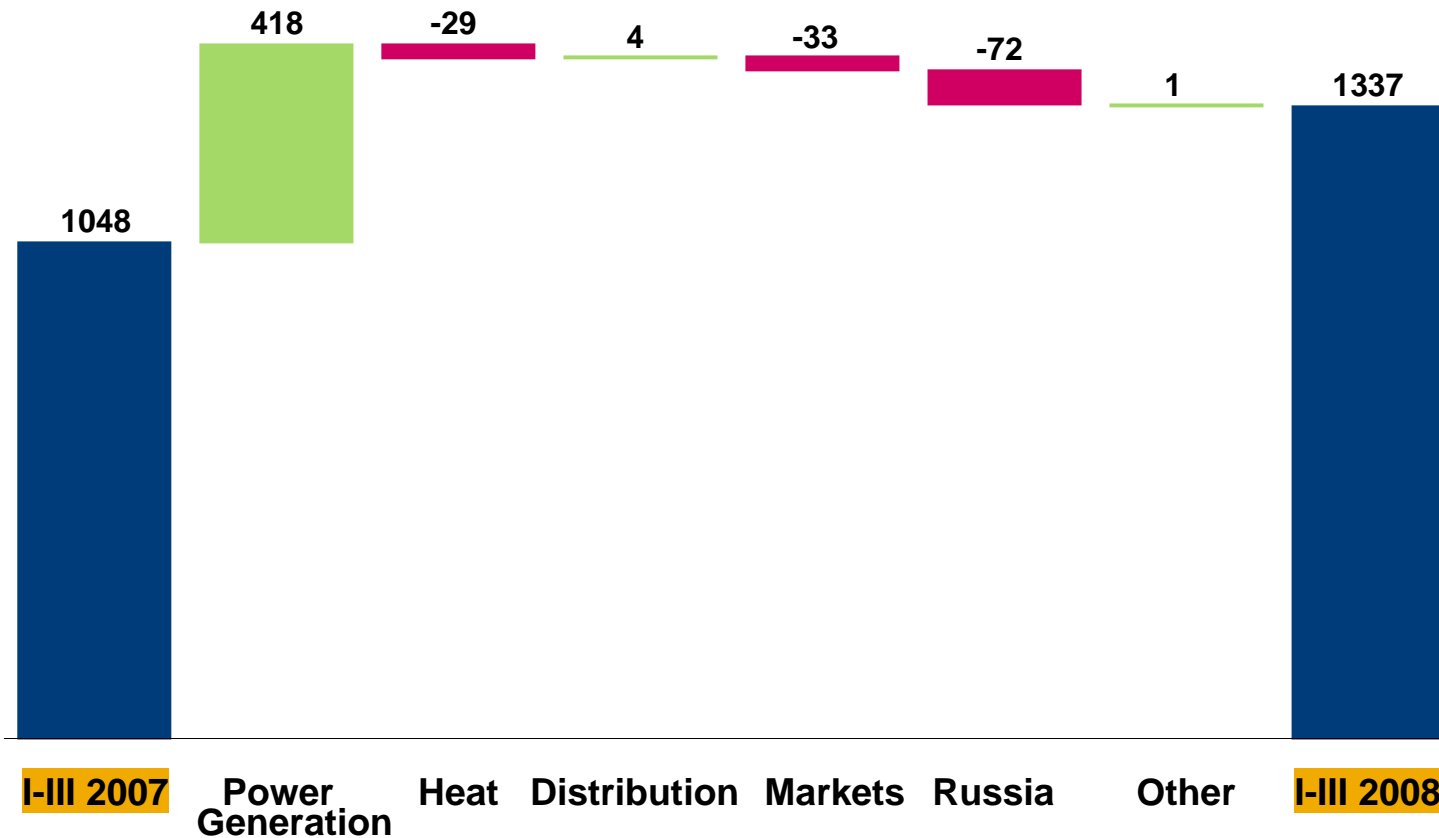
# Good results continue

- Comparable operating profit EUR 1,337 (1,048) million, +28%
- Earnings per share EUR 1.10 (0.87 excluding non-recurring gains), +26%
- Net cash from operating activities remained strong at EUR 1,440 (1,325) million
- Strong performance in Power Generation
- Power generated by Fortum within the EU 92% (92%) CO<sub>2</sub>-free

Comparison: I-II/2007 financial results

# Operational performance improved by 28%

## Comparable operating profit MEUR



Consistent hedging strategy and higher hydro power production in Power Generation

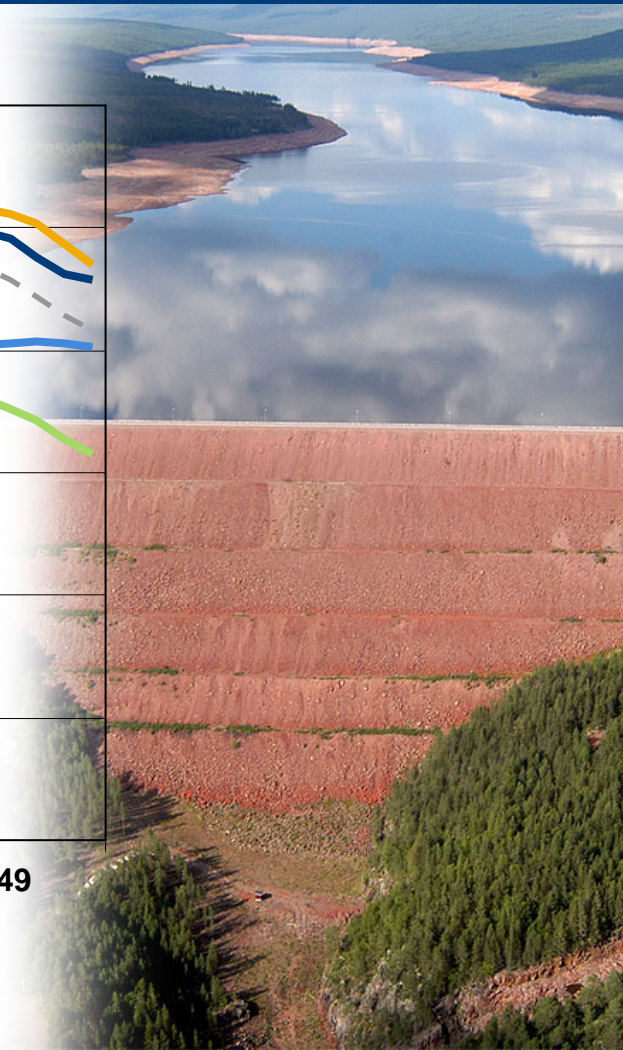
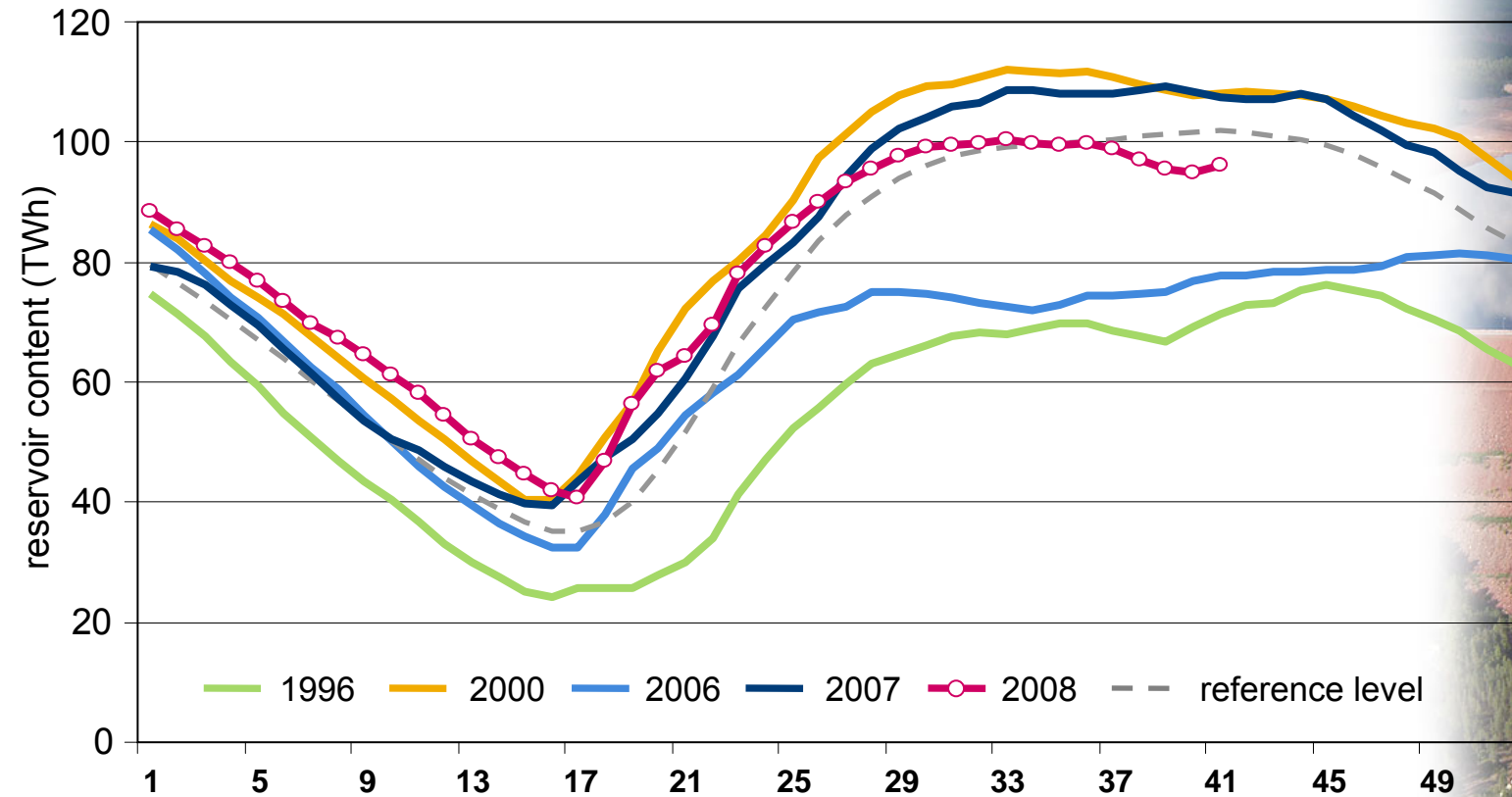
Higher fuel and CO<sub>2</sub> costs in Heat

Distribution – stable business as usual

Low sales margin in Markets

The first year of integration in Russia

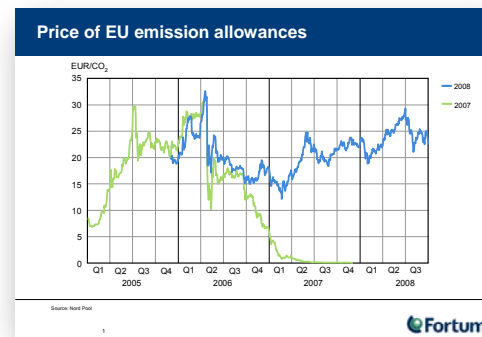
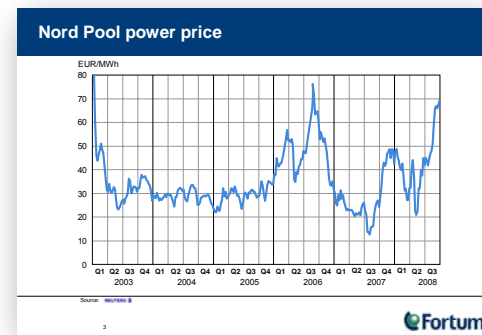
# Nordic water reservoirs – below average



Source: Nord Pool

# Price development

- Nord Pool wholesale price in:
  - Q3 increased 181% to 55.4 EUR/MWh (19.7 EUR/MWh)
  - Q1 – Q3 increased 86% to 42.7 EUR/MWh (22.9 EUR/MWh)
- Power Generation's achieved Nordic power price in:
  - Q3 increased 43% to 57.0 EUR/MWh (39.9 EUR/MWh)
  - Q1 – Q3 increased 28% to 49.3 EUR/MWh (38.4 EUR/MWh)
- Exceptionally high area price differences in third quarter

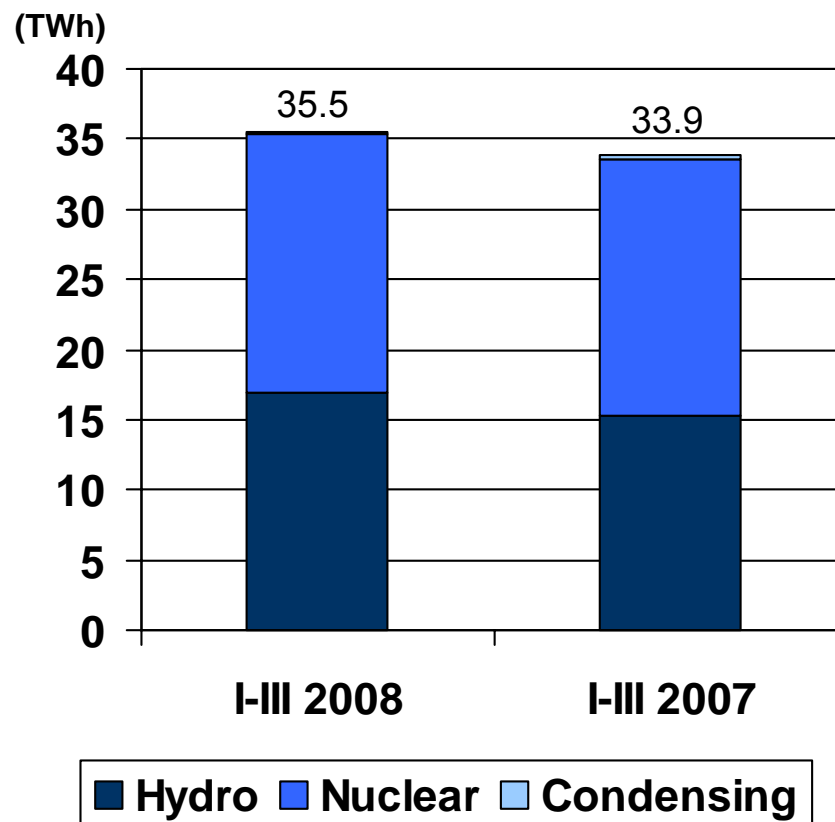


# SEGMENTS

# Power Generation

- Higher hydro volume, +1.6 TWh
- Very low thermal production
- CO<sub>2</sub>-free production of the segment 98%
- Malfunctions in transmission lines; area price differences

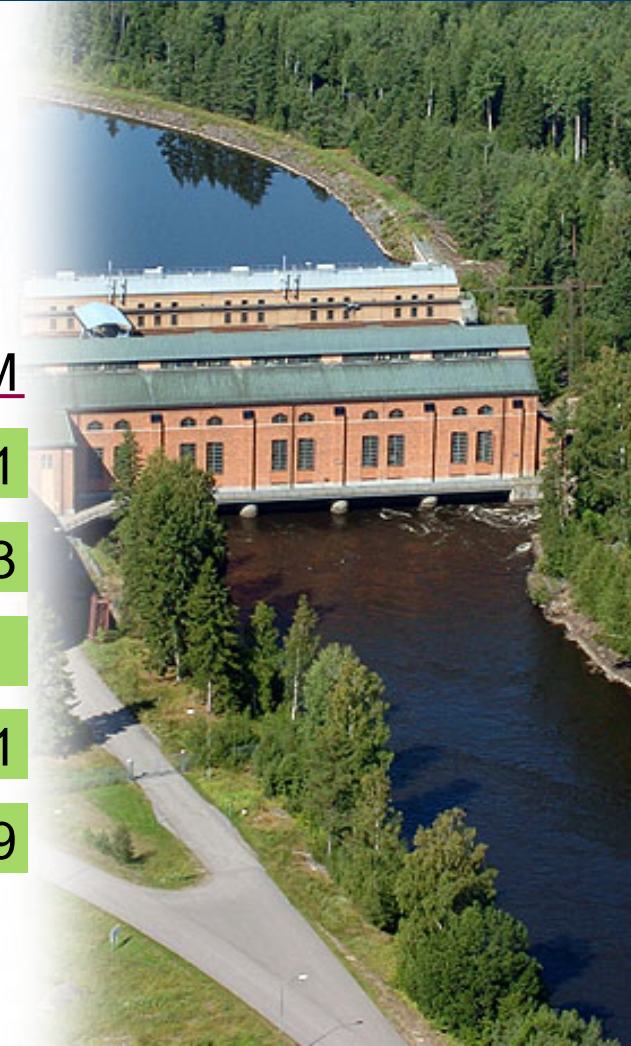
Segment's power generation in the Nordic countries



# Power Generation

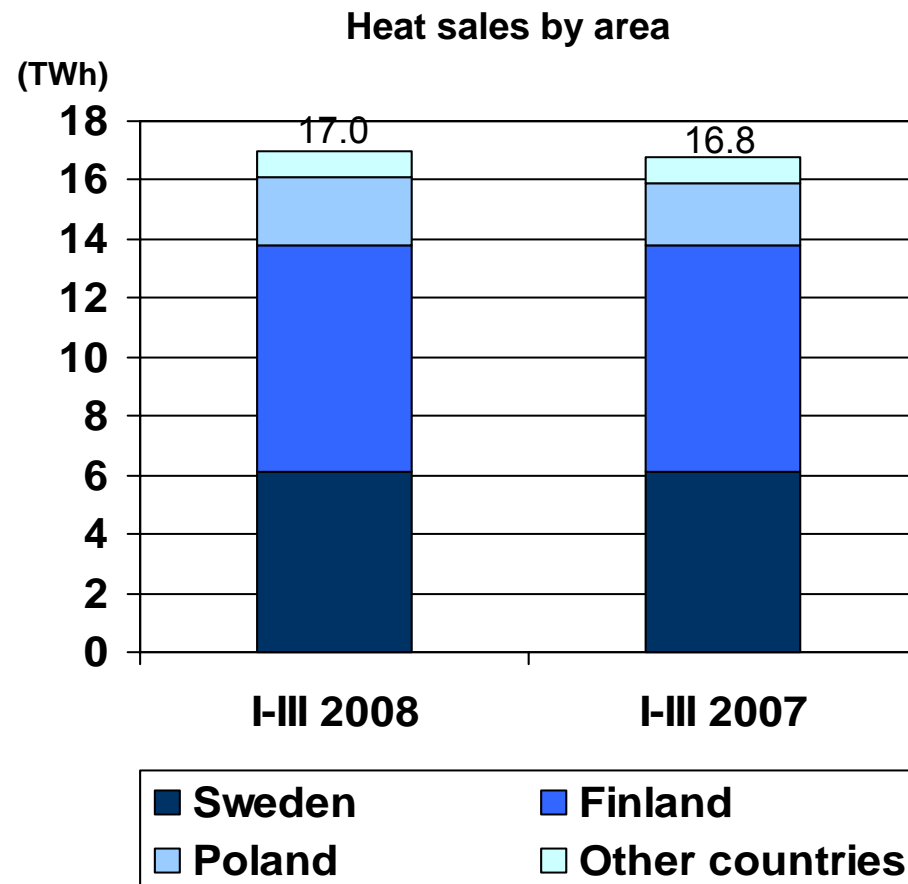
- Higher achieved Nordic power price
- Good generation mix

MEUR	I-III/2008	I-III/2007	LTM
Sales	2 156	1 665	2 841
Comparable operating profit	1 150	732	1 513
Net Assets	5 396	5 659	
Comparable RONA, %			27.1
Gross Investments	85	61	169



# Heat

- Investments in CHP plants ongoing:
  - Suomenoja, Finland (2009)
  - Częstochowa, Poland (2010)
  - Tartu, Estonia (2009)
  - Pärnu, Estonia (2010)
- One CHP plant in Finland divested (Jyväskylä)



# Heat

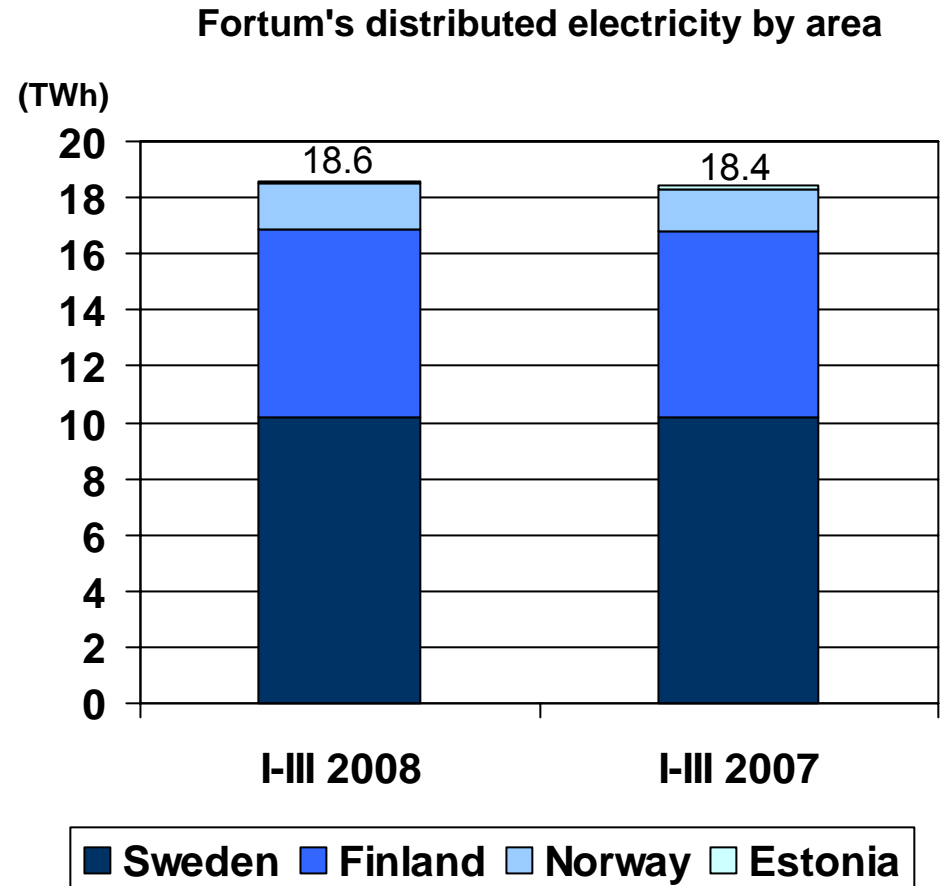
- Higher fuel prices
- Increase in CO<sub>2</sub> and other costs
- Low sales volume in Q1

MEUR	I-III/2008	I-III/2007	LTM
Sales	1 003	917	1 442
Comparable operating profit	141	170	261
Net Assets	3 595	3 402	
Comparable RONA, %			7.5
Gross Investments	287	206	408



# Distribution

- Stable business
- The installation of automatic meters in Sweden continues, 735,000 meters already installed



# Distribution

- Depreciations on automatic meter reading started in Q2

MEUR	I-III/2008	I-III/2007	LTM
Sales	583	563	789
Comparable operating profit	185	181	235
Net Assets	3 265	3 292	
Comparable RONA, %			7.6
Gross Investments	203	119	321



# Markets

- Markets' turnaround programme
  - Union negotiations started in Finland and in Sweden
- Price increases in Finland (August, 9%) and in Sweden (October, 13%)



**1.3 million electricity customers**  
- private and business  
- In Finland, Sweden and Norway

# Markets

- Weak sales margin
- Fixed costs

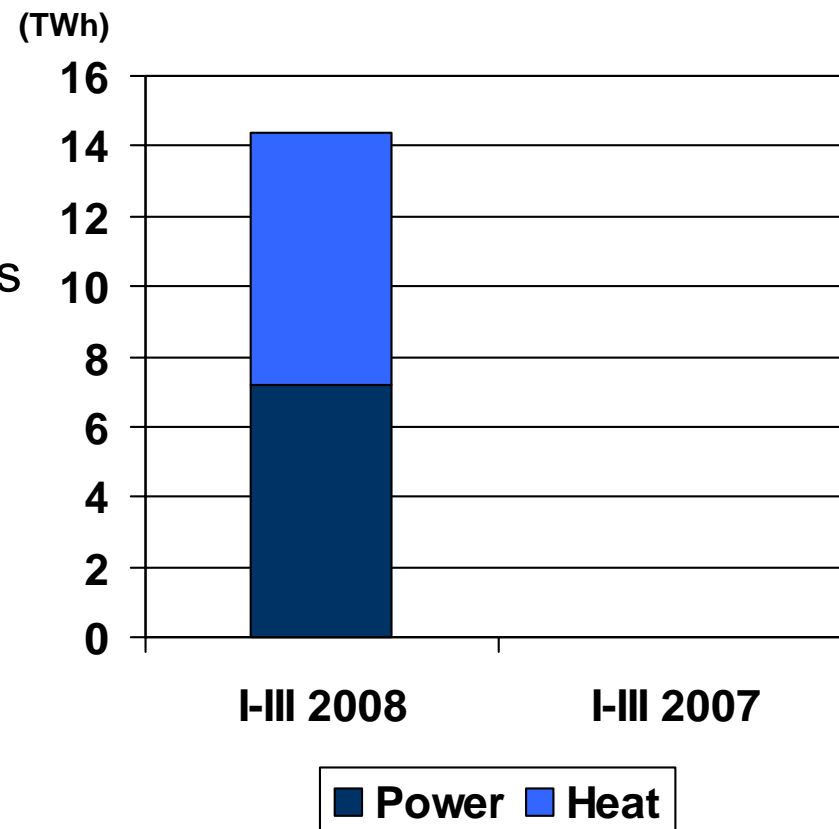
MEUR	I-III/2008	I-III/2007	LTM
Sales	1 391	1 201	1 873
Comparable operating profit	-33	0	-34
Net Assets	229	157	
Comparable RONA, %			-31.2
Gross Investments	3	2	4



# Russia

- Power and heat generation 7.2 TWh
- The mandatory public tender offer
  - ownership in September over 93%
- New organisational structure and Fortum's management model in place
- Joint implementation projects with TGC-10 will lead to ~1.5 million tonnes of emission reduction units between 2008 and 2012

Segment's power and heat generation



# Russia

- TGC-10 stand-alone loss EUR 34 million
- Consolidated from 1 April; high seasonality

MEUR	I-III/2008	I-III/2007	LTM
Sales	292	-	292
Comparable operating profit	-72	-	-72
Net Assets	2 420	482	
Comparable RONA, %			-3.3
Gross Investments	1 622	245	1 622



# FINANCIALS

# Income statement

MEUR	III/2008	III/2007	I-III/2008	I-III/2007	2007	LTM
Sales	1 272	860	4 034	3 159	4 479	5 354
Expenses	-877	-350	-2 682	-1 832	-2 632	-3 482
<b>Operating profit</b>	<b>395</b>	<b>510</b>	<b>1 352</b>	<b>1 327</b>	<b>1 847</b>	<b>1 872</b>
Share of profit of associates and jv	8	6	78	223	241	96
Financial expenses, net	-66	-45	-185	-117	-154	-222
<b>Profit before taxes</b>	<b>337</b>	<b>471</b>	<b>1 245</b>	<b>1 433</b>	<b>1 934</b>	<b>1 746</b>
Income tax expense	-69	-44	-256	-218	-326	-364
<b>Net profit for the period</b>	<b>268</b>	<b>427</b>	<b>989</b>	<b>1 215</b>	<b>1 608</b>	<b>1 382</b>
Minority interest	-16	-4	10	31	56	35
EPS, basic (EUR)	0.32	0.48	1.10	1.33	1.74	1.52
EPS, diluted (EUR)	0.32	0.48	1.10	1.33	1.74	1.52

# Cash flow statement

MEUR	III/2008	III/2007	I-III/2008	I-III/2007	2007	LTM
<b>Operating profit before depreciations</b>	532	623	1 735	1 663	2 298	2 370
Non-cash flow items and divesting activities	-56	-263	-38	-268	-286	-56
Financial items and taxes	-92	-89	-372	-231	-393	-534
<b>Funds from operations (FFO)</b>	<b>384</b>	<b>271</b>	<b>1 325</b>	<b>1 164</b>	<b>1 619</b>	<b>1 780</b>
Change in working capital	17	-16	115	161	51	5
<b>Total net cash from operating activities</b>	<b>401</b>	<b>255</b>	<b>1 440</b>	<b>1 325</b>	<b>1 670</b>	<b>1 785</b>
Paid capital expenditures	-301	-128	-680	-341	-592	-931
Acquisition of shares	-442	-247	-1 215	-257	-285	-1 243
Other investing activities	1	282	-44	258	268	-34
<b>Cash flow before financing activities</b>	<b>-341</b>	<b>162</b>	<b>-499</b>	<b>985</b>	<b>1 061</b>	<b>-423</b>

# Comparable and reported operating profit

	Operating profit III/2008		Operating profit III/2007		Operating profit I-III/2008		Operating profit I-III/2007	
	Comparable	Reported	Comparable	Reported	Comparable	Reported	Comparable	Reported
Power Generation	371	438	185	221	1150	1129	732	764
Heat	-7	-15	-3	-2	141	152	170	173
Distribution	49	50	51	50	185	187	181	182
Markets	-8	-17	11	15	-33	-6	0	10
Russia	-39	-39	-	232	-72	-72	-	232
Other	-13	-22	-6	-6	-34	-38	-35	-34
<b>Total</b>	<b>353</b>	<b>395</b>	<b>238</b>	<b>510</b>	<b>1337</b>	<b>1352</b>	<b>1048</b>	<b>1327</b>

# Key ratios

<b>MEUR</b>	<b>LTM</b> in Q3 '08	<b>2007</b>	<b>2006</b>
Sales	5 354	4 479	4 491
Operating profit	1 872	1 847	1 455
Cash flow from operations	1 785	1 670	1 151
Interest-bearing net debt	6 520	4 466	4 345
Balance sheet total	20 546	17 674	16 839
Net debt/EBITDA*	2.8	2.2	2.3
Return on capital employed (%)*	14.1	14.0	13.4
Return on shareholders' equity (%)*	16.7	15.8	14.4

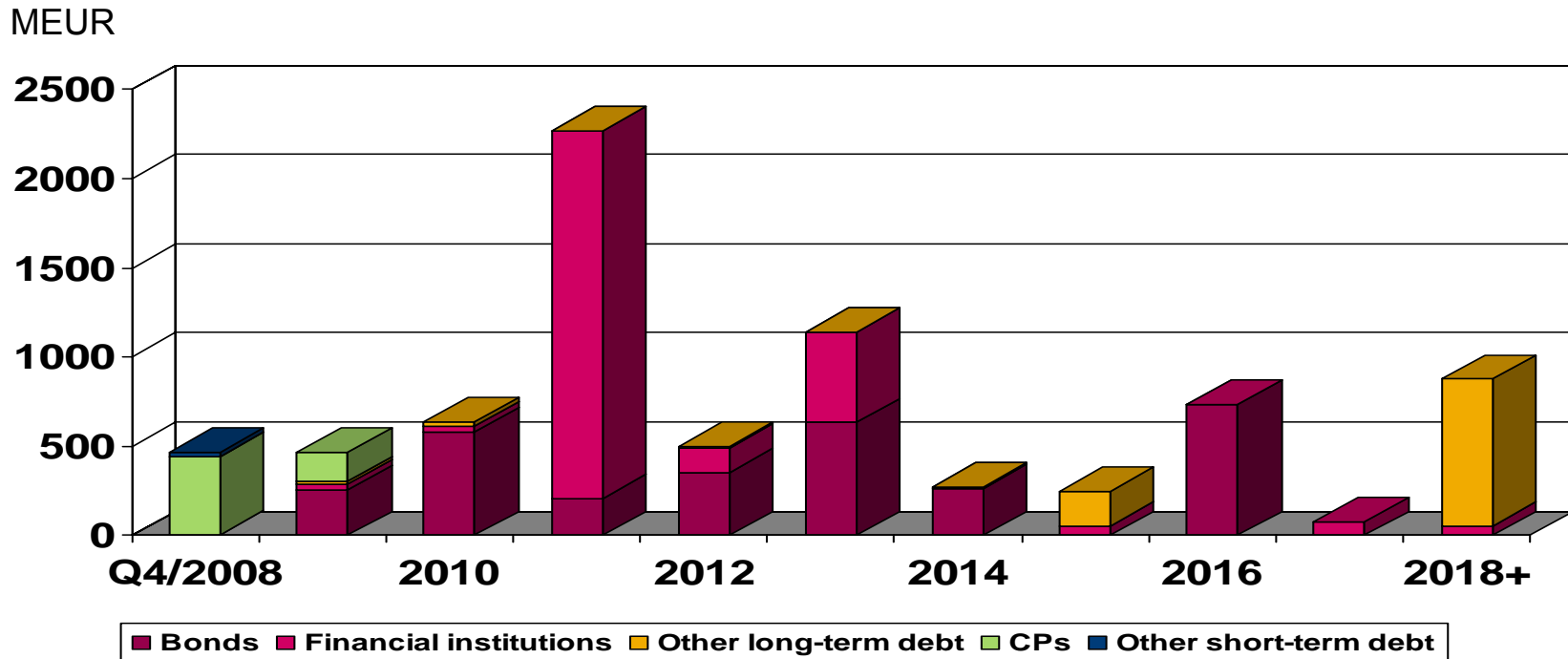
\*2007 adjusted for REC and Lenenergo gains

# Good liquidity

MEUR	Available	Outstanding	Total amount
<b><u>SHORT TERM FINANCING</u></b>			
<b>Commercial Paper Programmes</b>			
Finnish CP Programme	229	271	500
SEK 5.000 M Swedish CP Programme	184	327	511
	<b>413</b>	<b>598</b>	<b>1 011</b>
<b><u>LIQUID FUNDS AND COMMITTED CREDIT LINES</u></b>			
<b>Committed Credit Lines</b>			
Short Term	202	11	213
Long Term	2 200	500	2 700
	<b>2 402</b>	<b>511</b>	<b>2 913</b>
<b>Liquid Funds</b>			
Cash and cash equivalents	663		
Bank Deposits over 3 months	516		
	<b>1 179</b>		
of which in Russia	1 109		
<b>Total Available Cash and Committed Financing</b>	<b>3 581</b>		

In October, Fortum made an additional drawing under the committed credit facility of EUR 500 million, which will cover all outstanding debt maturing in 2008

# Debt maturity profile



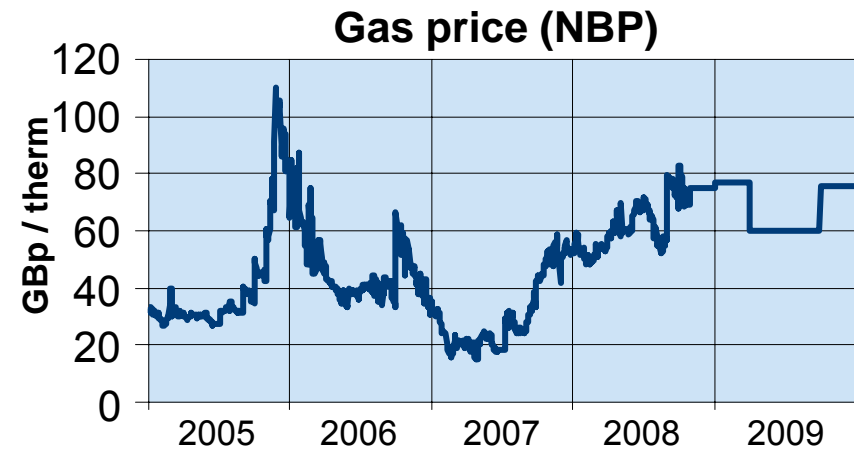
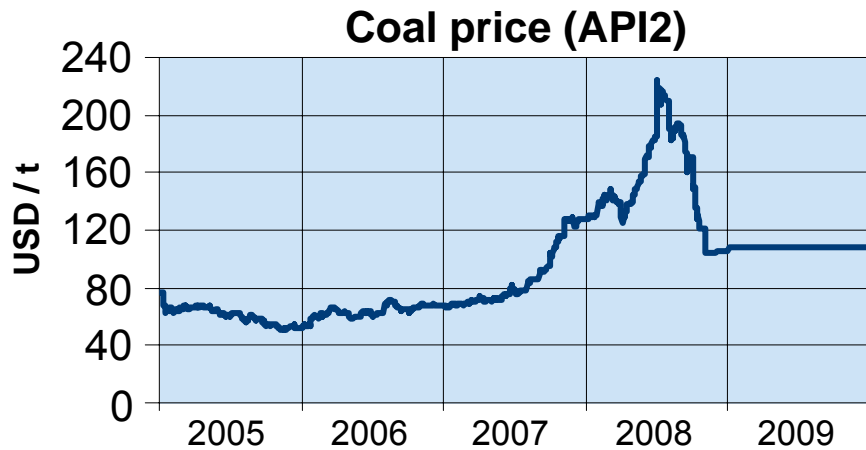
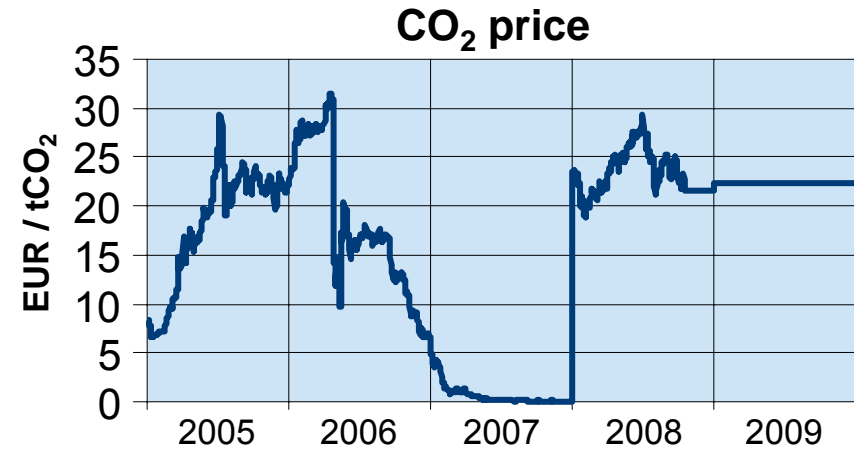
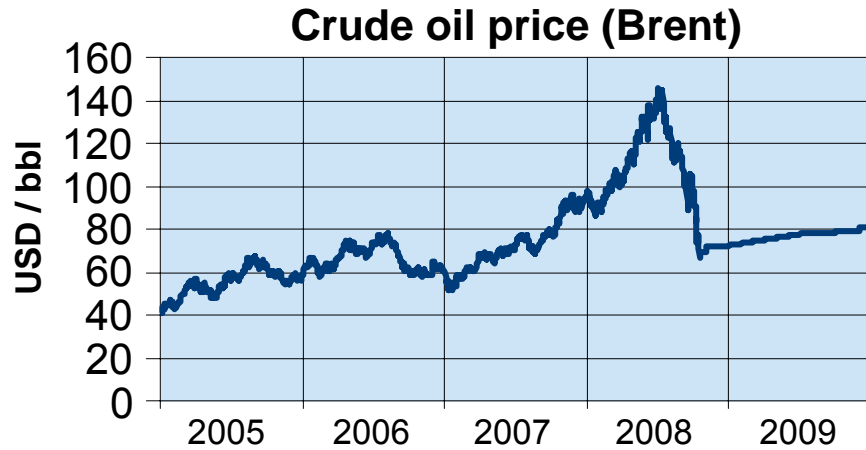
	30 Sep, 2008	31 Dec, 2007
Duration (years)	1.7	1.3
Average interest rate (incl. swaps and forwards)	5.3 %	4.4 %
Portion of floating/fixed debt	74 / 26 %	67 / 33 %

# OUTLOOK

# Market fundamentals

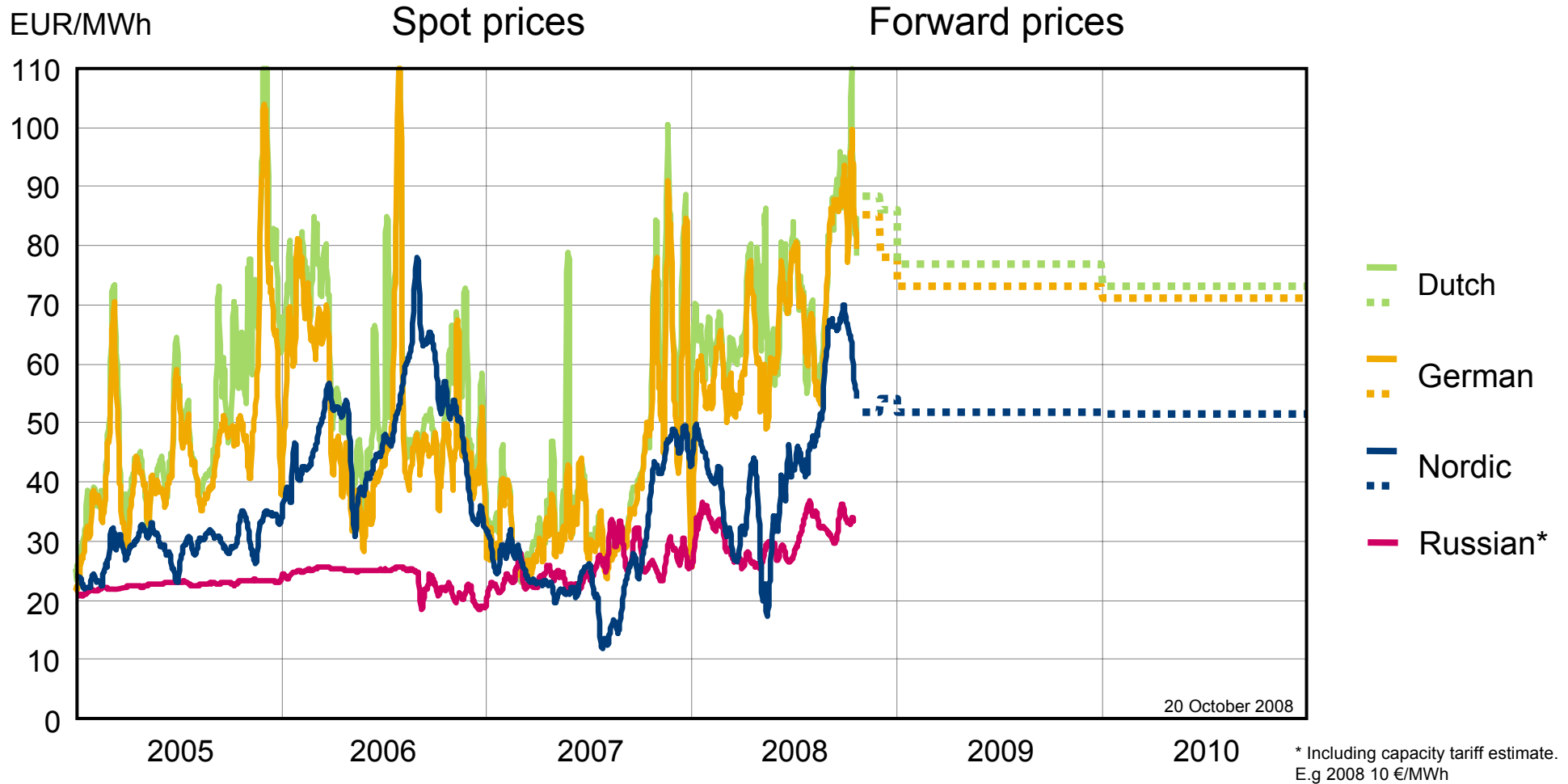
- Nordic water reservoirs about 6 TWh below the long-term average in early October 2008
- Forward power prices in mid October 2008:
  - rest of 2008 ~ 53-58 EUR/MWh
  - 2009 ~ 51-55 EUR/MWh
  - 2010 ~ 50-53 EUR/MWh
- CO<sub>2</sub> prices in mid October 2008:
  - for 2008, 2009 and 2010 ~ EUR 22-23 per tonne

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



Source: [REUTERS](#) ; market prices October 2008; 2008-2009 future quotations

# Wholesale prices for electricity



Source: [REUTERS](#), ATS

# Hedging of Power Generation's Nordic sales

## Status at the beginning of October 2008

(Status at the beginning of July 2008)

	<u>Hedge ratio</u>	<u>Hedge price</u>
Rest of 2008	~ 65% (~70%)	~ EUR 46 per MWh (~ EUR 46 per MWh)
2009	~ 55% (~45%)	~ EUR 53 per MWh (~ EUR 51 per MWh)
2010	~ 20%	~ EUR 55 per MWh

# Fortum well positioned for the future

- Flexible and climate-benign production portfolio
- Integration of Russian TGC-10 proceeding well
- Growth through the investment programme in the Nordic region, Poland and the Baltic countries
- Two CHP plants to be commissioned in 2009
- Strong balance sheet and liquidity
- Good hedging positions
  
- Good financial outlook

