

Fortum – a leading power and heat company in the Nordic area

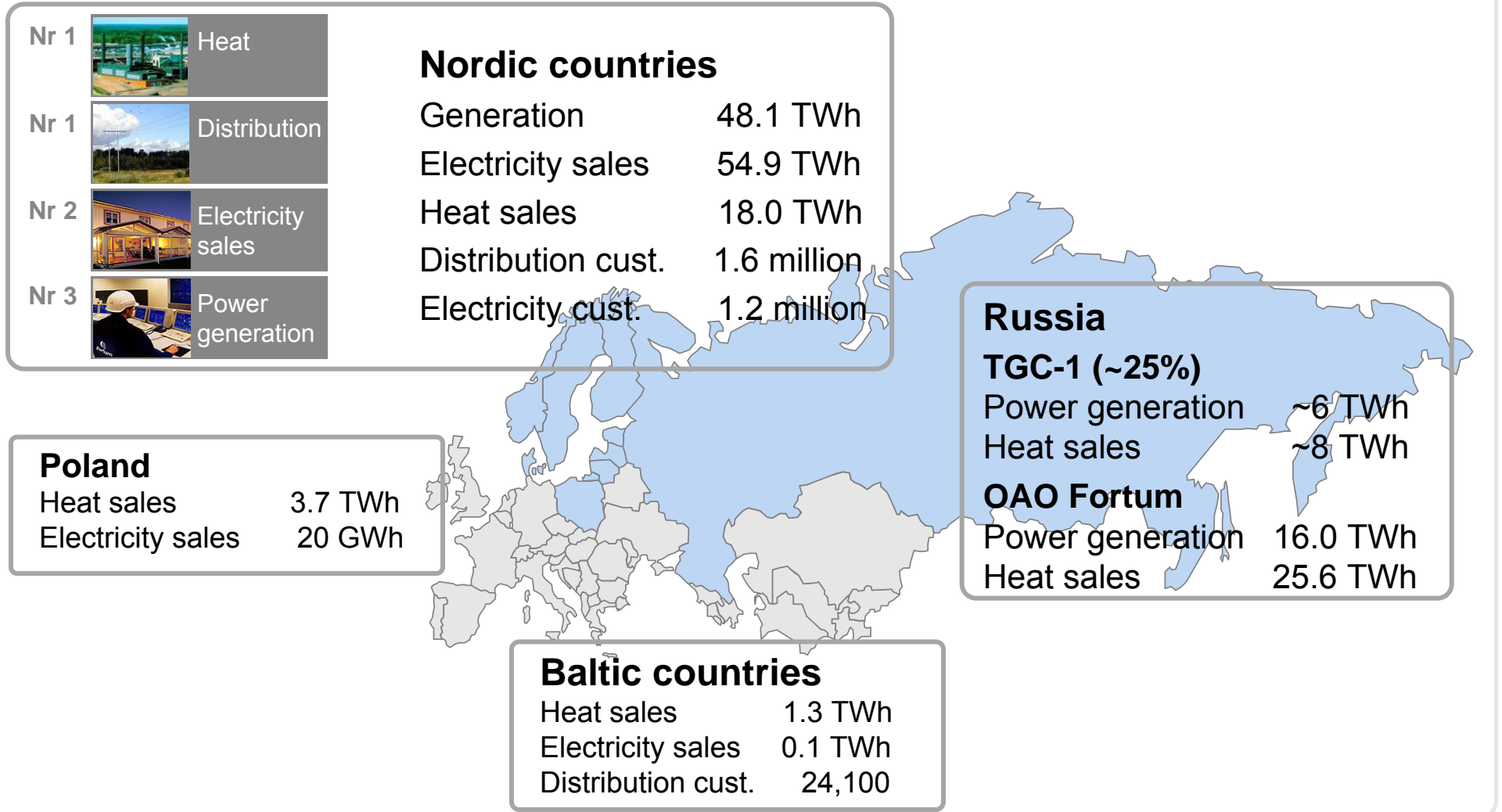
- Strategy
- Fortum in Russia

Tapio Kuula
President and CEO, Fortum Corporation

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- Fortum today
- Fortum's key beliefs for the power markets
- Fortum in Russia
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Our geographical presence today

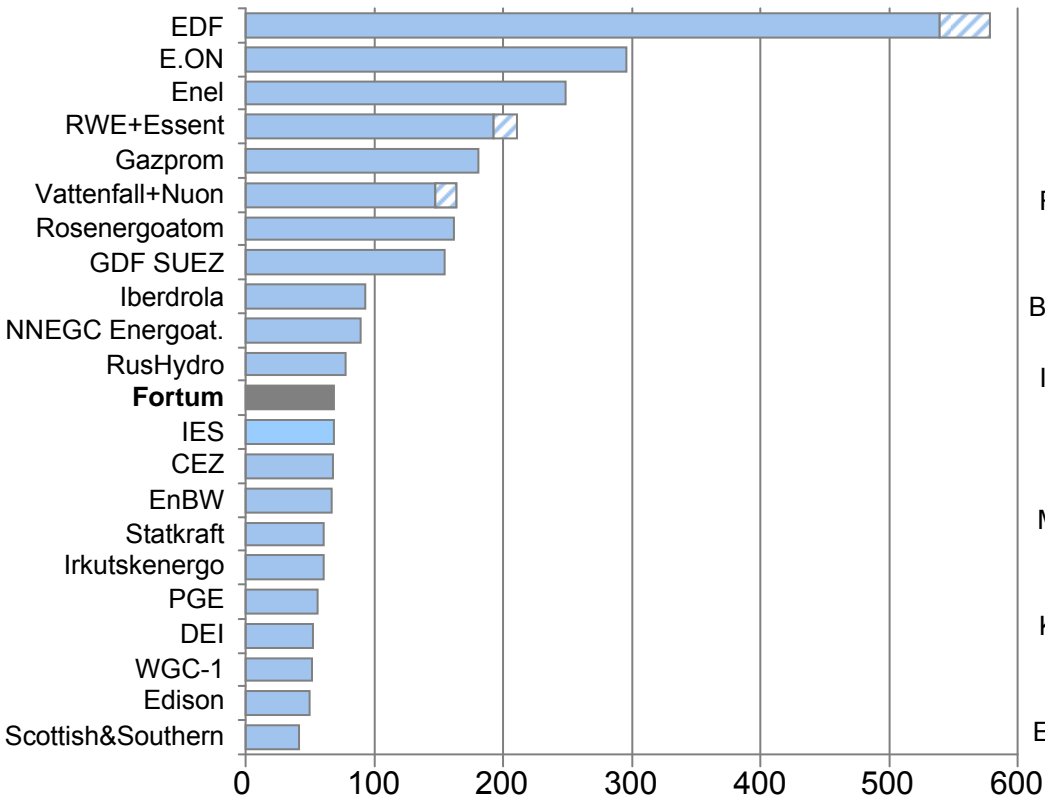


Fortum mid-sized European power generation player, Global #4 in heat

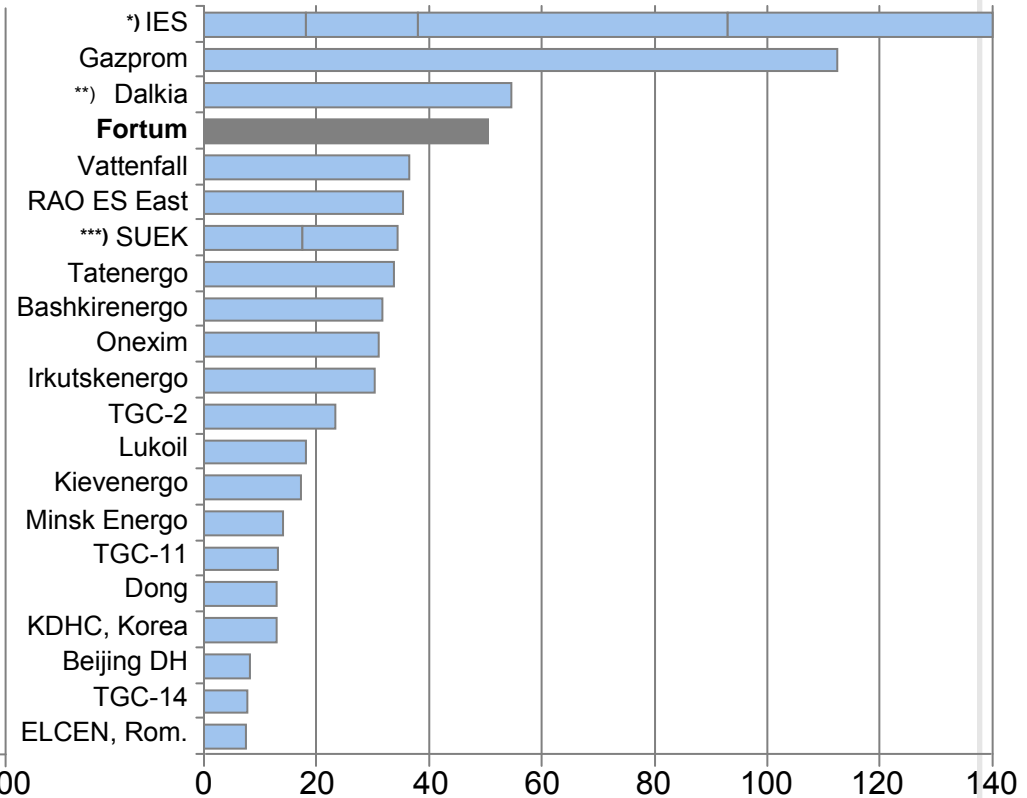
Power generation

Heat production

Largest producers in Europe and Russia, 2008 TWh



Largest global producers, 2008 TWh



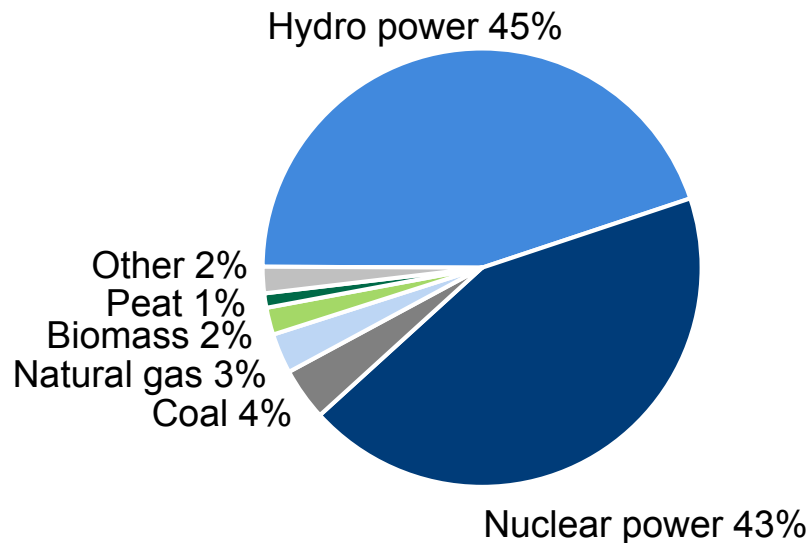
* incl. TGC-5, TGC-6, TGC-7, TGC-9, *** incl. TGC-12, TGC-13

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

Fortum's European power and heat production

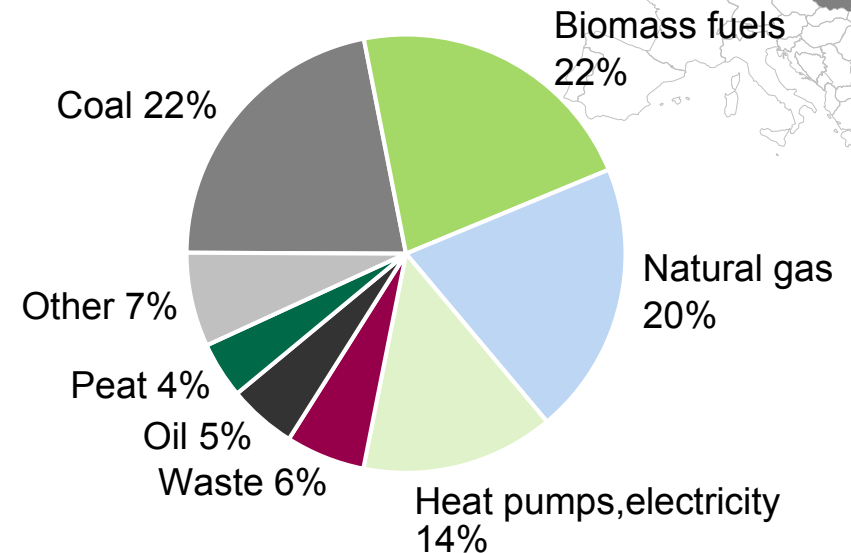
– A portfolio of hydro, nuclear and energy efficient CHP

Fortum's European power generation in 2009

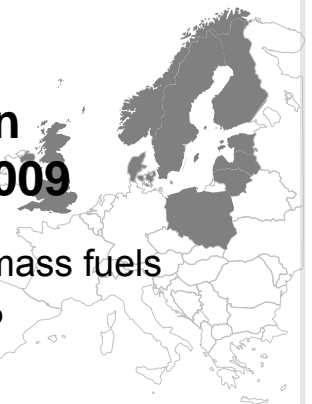


European generation 49.3 TWh
(Generation capacity 11,155 MW)

Fortum's European heat production in 2009

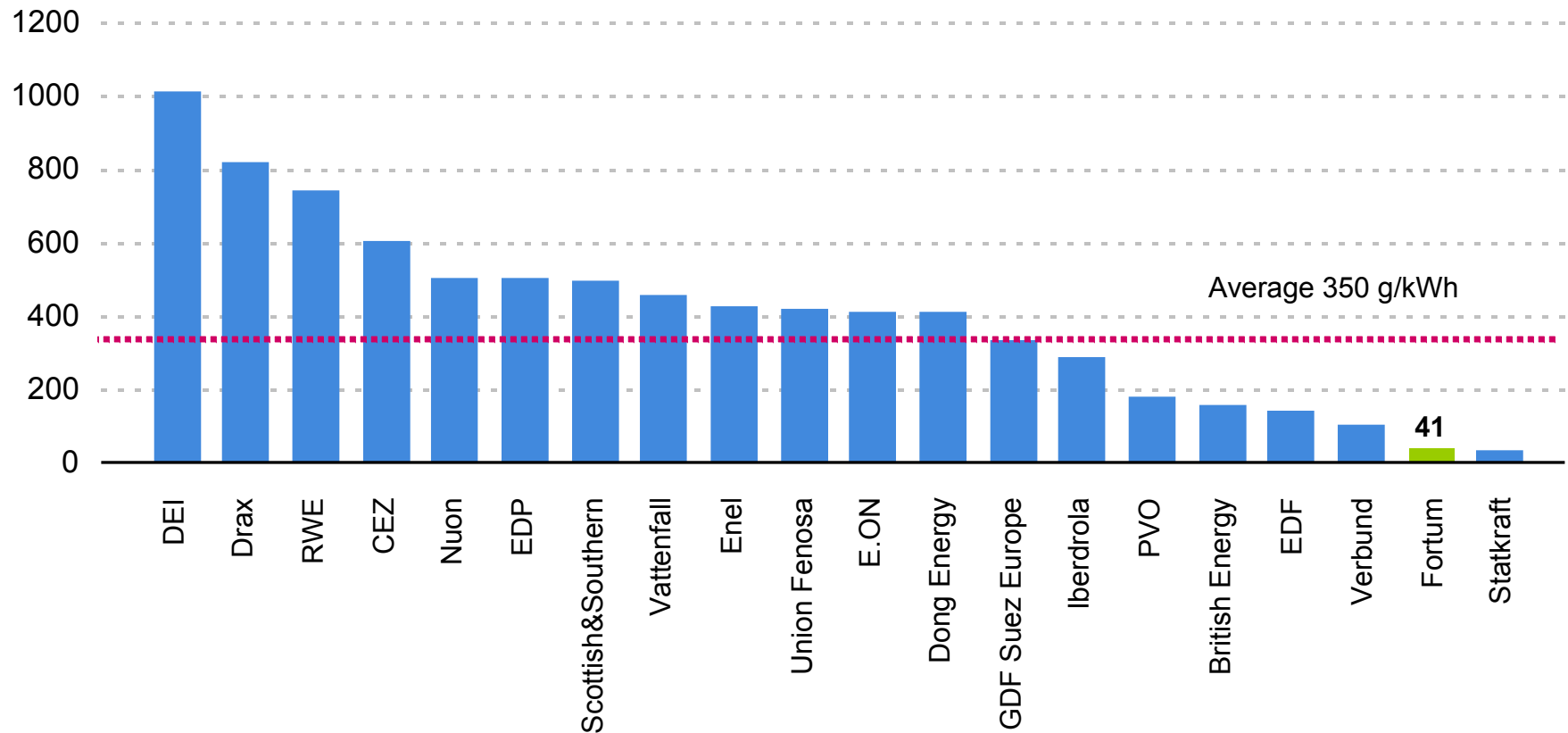


European production 23.2 TWh
(Production capacity 10,534 MW)



Fortum's carbon exposure among the lowest in Europe

g CO₂/kWh electricity, 2008



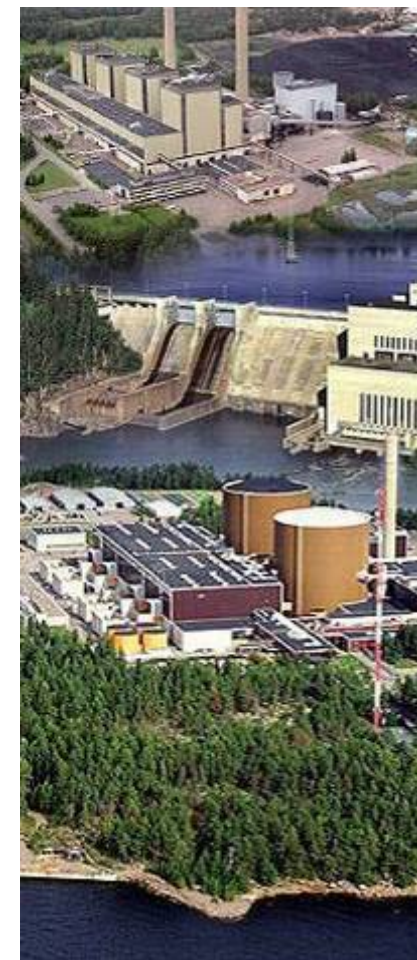
Source:
PWC & Enerpresse, 2009
Changement climatique et Électricité

Fortum's investment programme

– Nordic region, Poland and Baltic countries

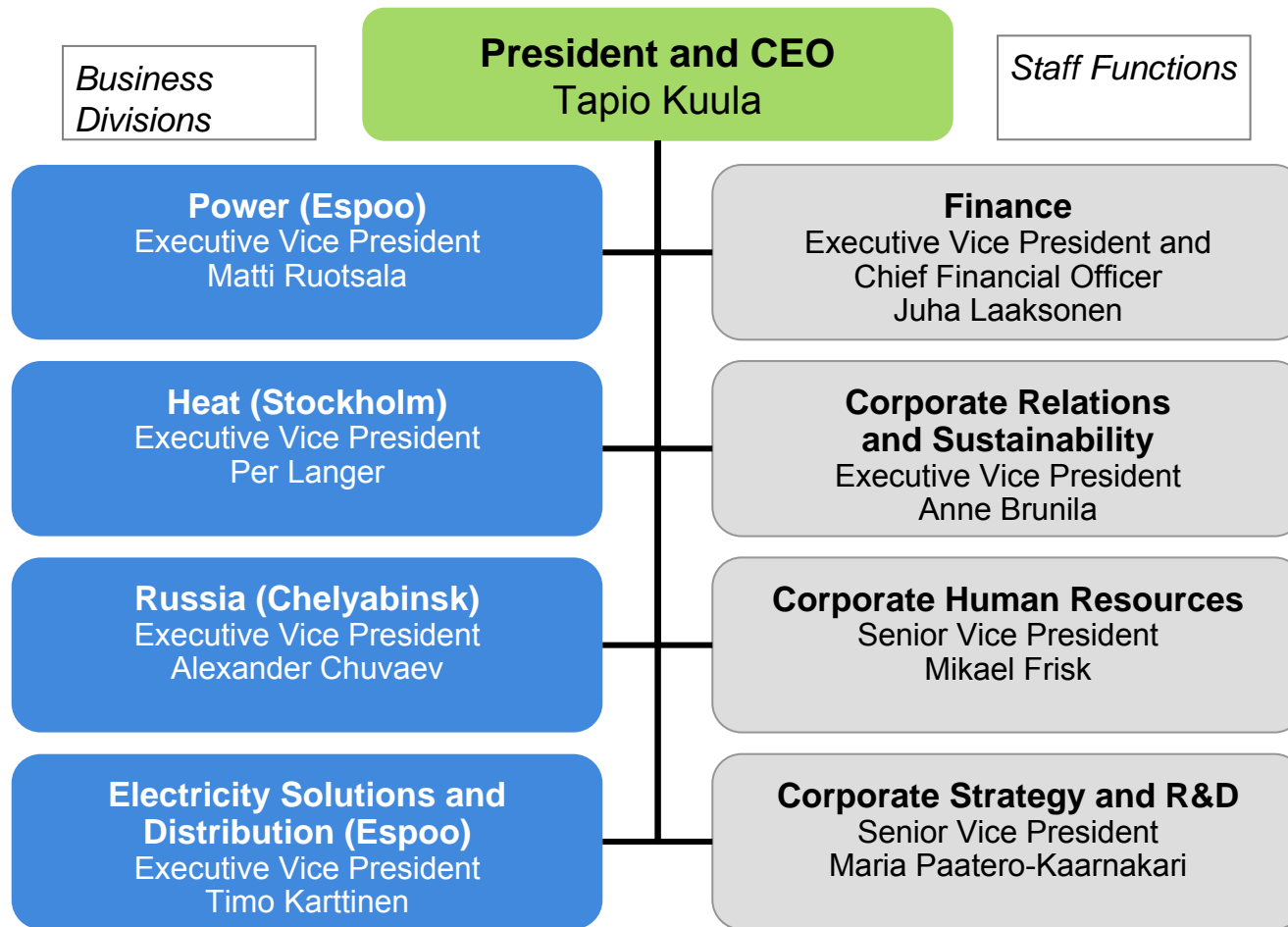
Project	Electricity, MW	Heat, MW	Commissioned
Olkiluoto 3, Finland	400		2012
Swedish nuclear upgrades	260		by 2013
- Forsmark 3 upgrade (to be decided)	30		post 2013
Refurbishing of hydro power	20-30		annually
Częstochowa, Poland (coal/biomass CHP)	65	120	Q3/2010
Pärnu, Estonia (coal/biomass CHP)	20	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



Organisational structure from 1 Oct 2009

– Efficiency, Accountability, Simplicity



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

Strategic agenda – for the market driven production company

Performance excellence

- Profit and cash flow
- Benchmark performance in key areas
- Risk management

Streamlined organisation

- Efficiency, accountability, simplicity

Managing regulation

- Market-driven development of the energy market

New business opportunities and R&D

- Strategic partnerships
- Electricity in transportation, energy efficiency solutions, CCS

Readiness for growth and next strategic steps

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Key beliefs for the power markets in Europe and the Nordic region

S/D tightness

- **There is still need to build new capacity in the Northern Europe and the Nordic region**
 - Demand growth, a part of old capacity will be mothballed and/or decommissioned
 - Need for CO₂-free capacity; a lot of planning ongoing, less action

Market integration

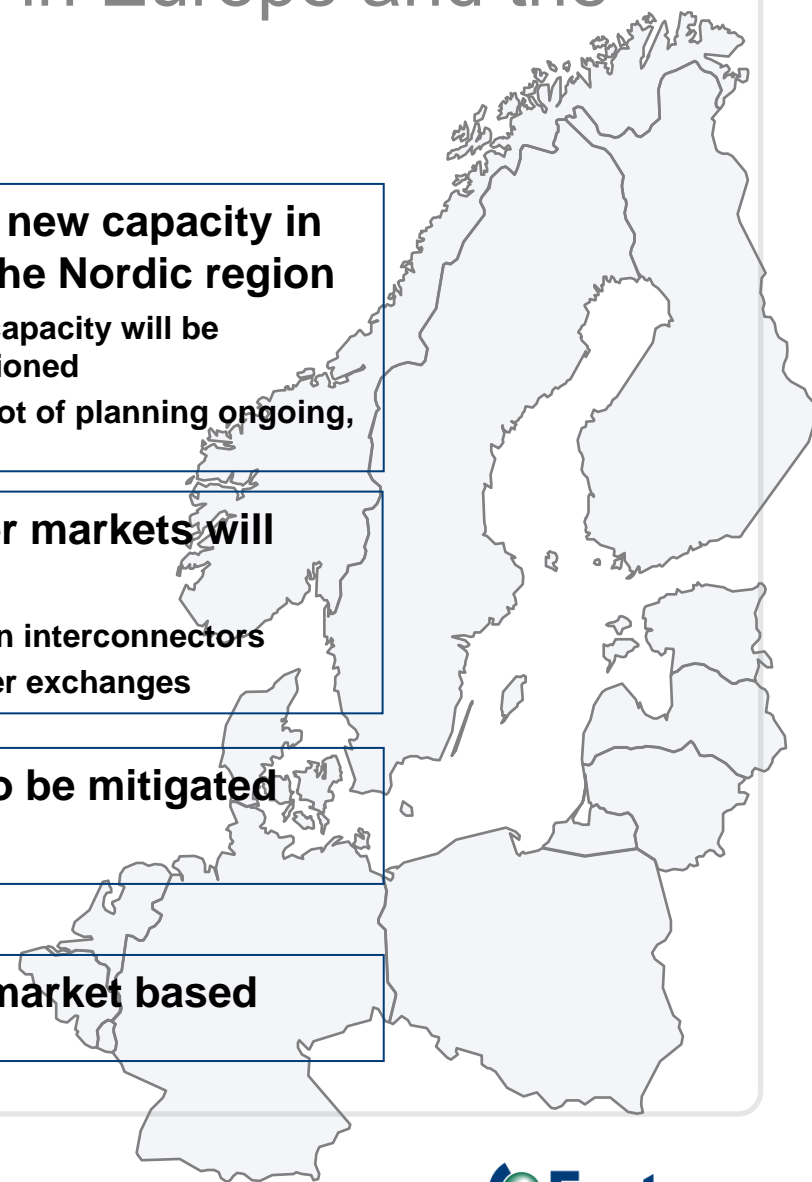
- **European wholesale power markets will gradually integrate**
 - New cross-border, cross-region interconnectors
 - Market coupling between power exchanges


Climate change is a real issue

- **CO₂-emissions will have to be mitigated**
 - CO₂ will have a price

Liberalised power markets

- **Wholesale power pricing market based**



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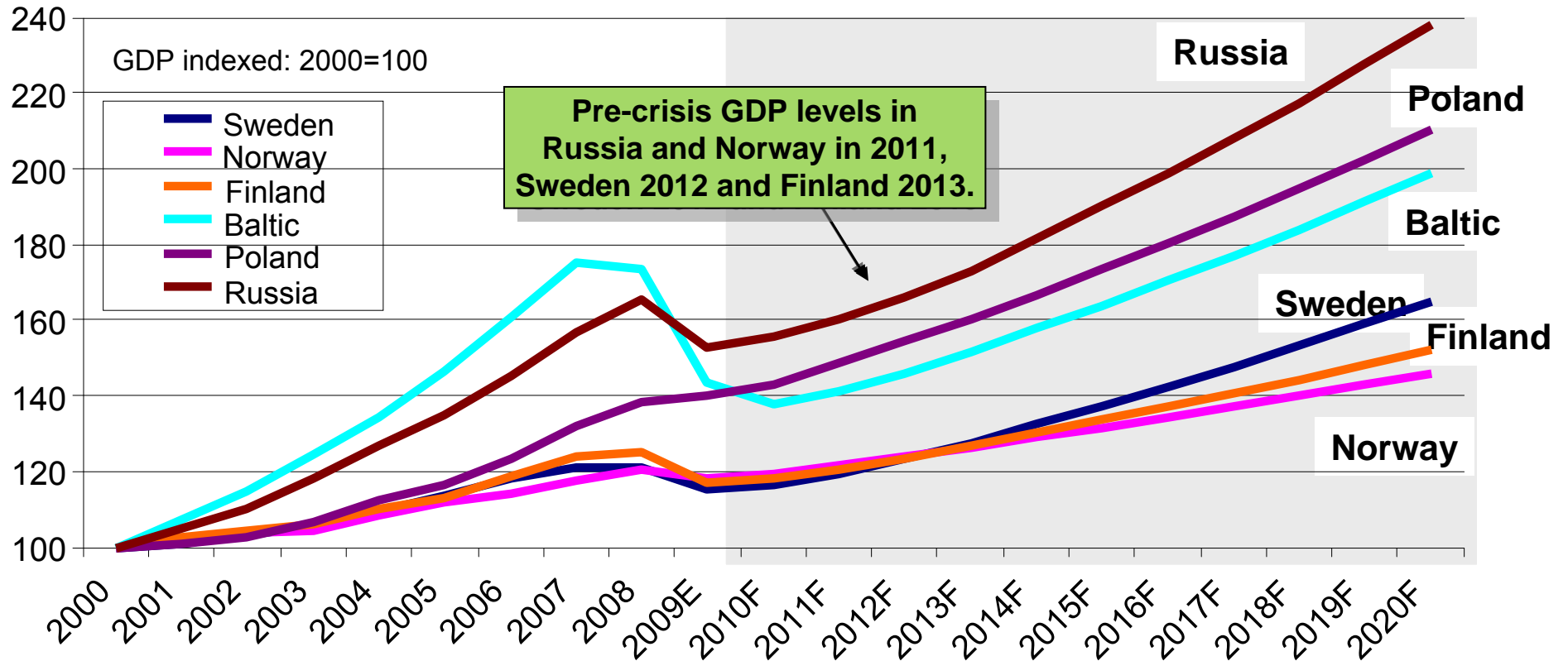
OAO Fortum* in brief

- 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.



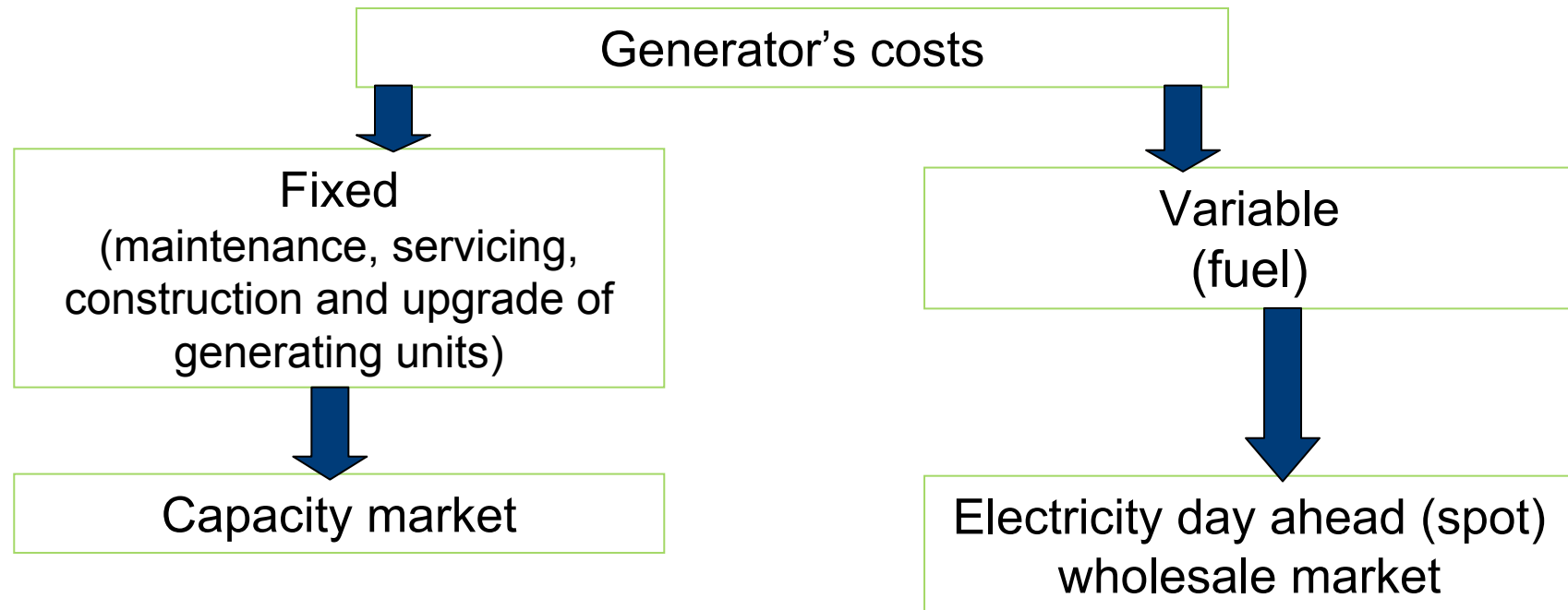
Russia is the fastest growing market area for Fortum

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

Power market liberalisation – two markets



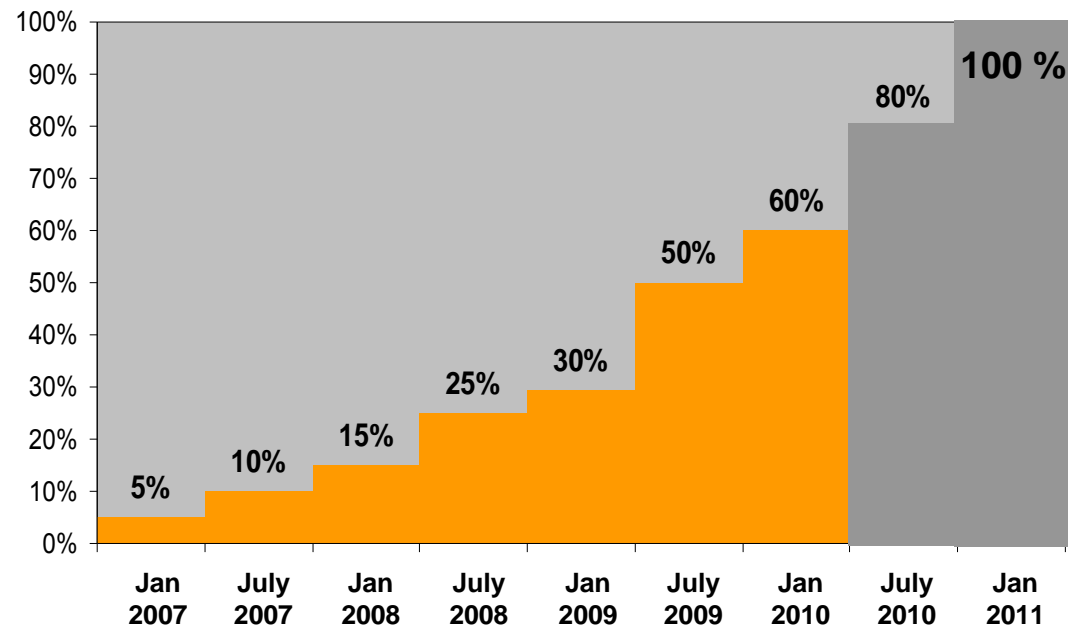
- Capacity payment is the intended mechanism for earning a (reasonable) return on invested capital
- Capacity payments are a big part of a power generator's income
 - a typical CHP plant ~35%, CCGT ~55% of revenues
- Day ahead (spot) market is for covering the variable costs
- Financial market planned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

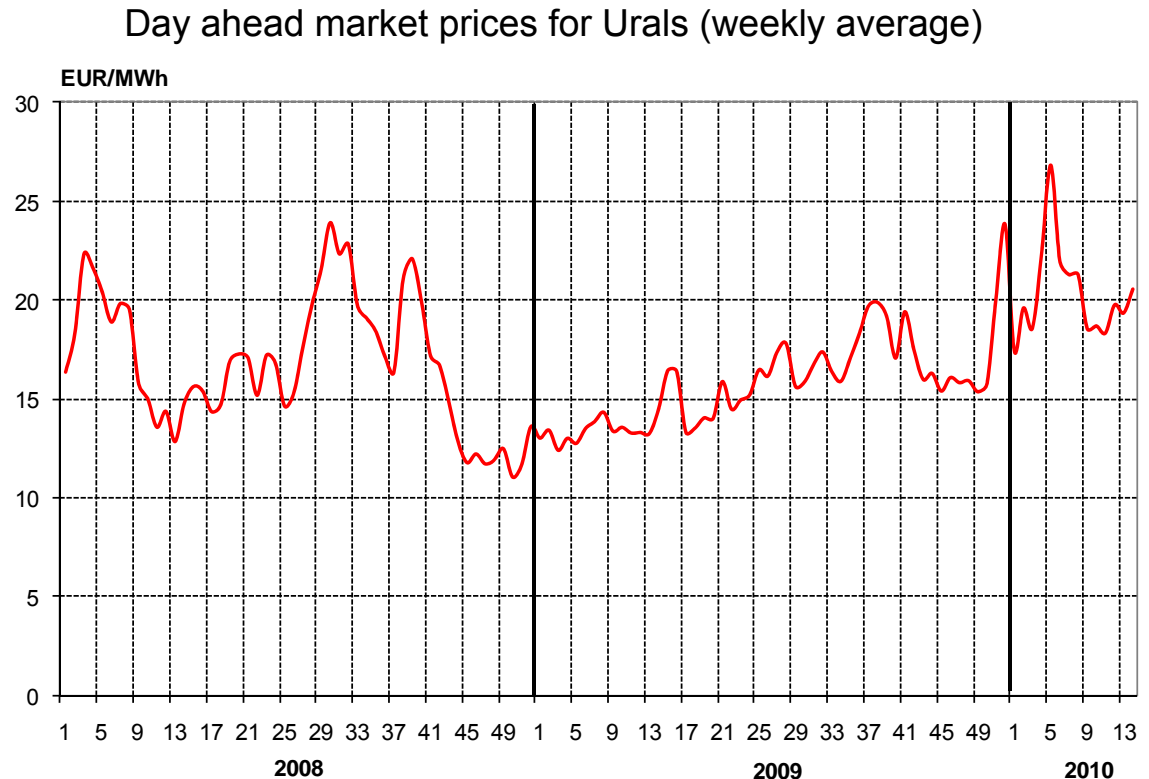
Share of liberalised trade for existing capacity



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



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

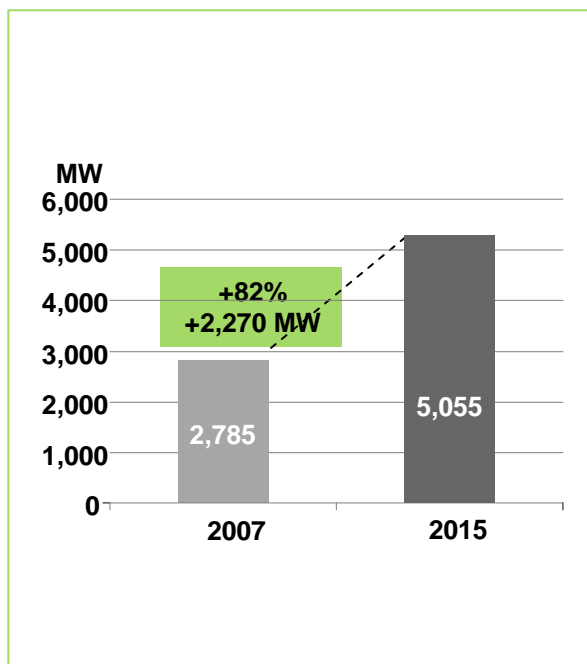
Capacity payments currently ~1/3 of total revenues for Fortum Russia

- 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*



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



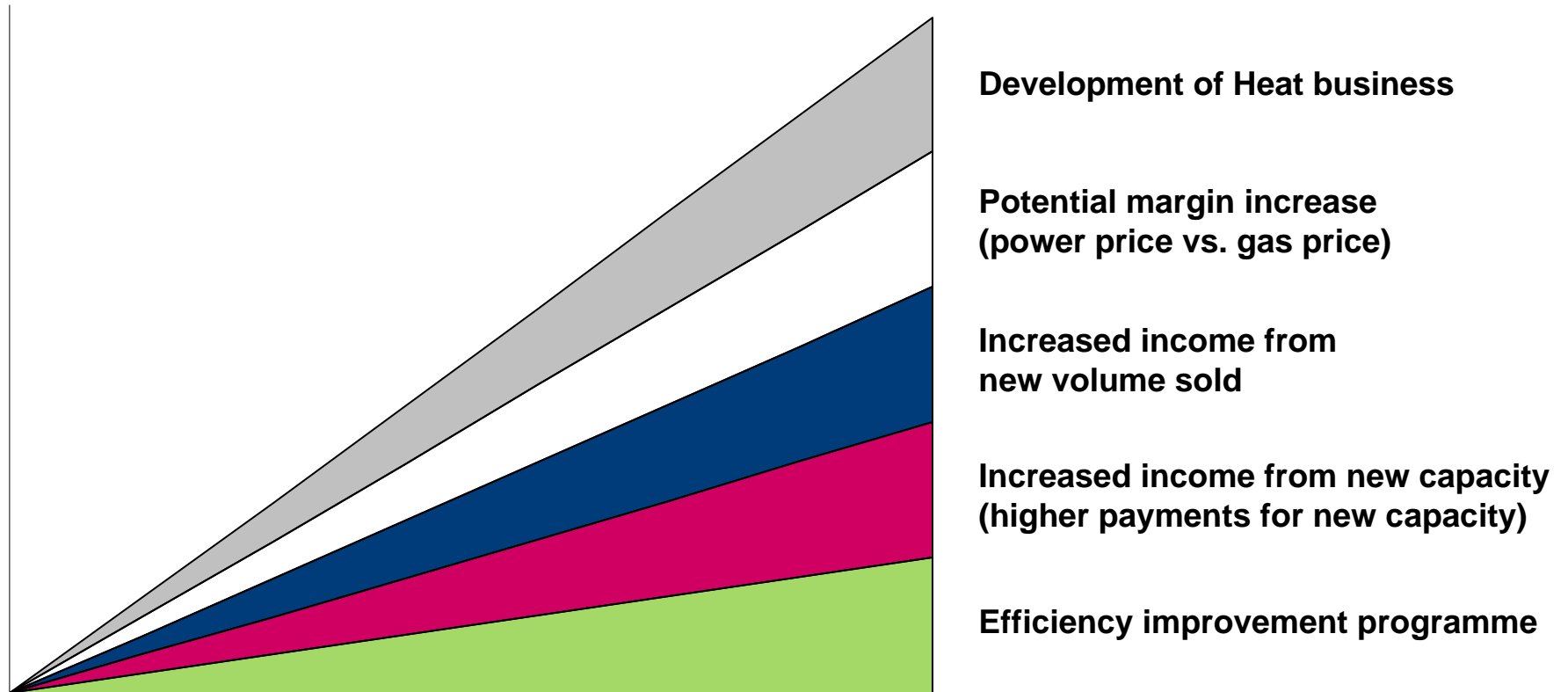
Plant	Fuel type	Power generation capacity (MW)		Total
		Existing	Planned	
Tyumen CHP-2	Gas	755	450 (Condensing)	1,205
Tyumen CHP-1, Q3/2010	Gas	472	190 (CHP/Condensing)	662
Tobolsk CHP, Q3/2010	Gas	452	210 (Condensing)	662
Chelyabinsk CHP-3, Q4/2010	Gas	360	220 (CHP/Condensing)	580
Chelyabinsk CHP-2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

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

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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