



Capital Markets Day

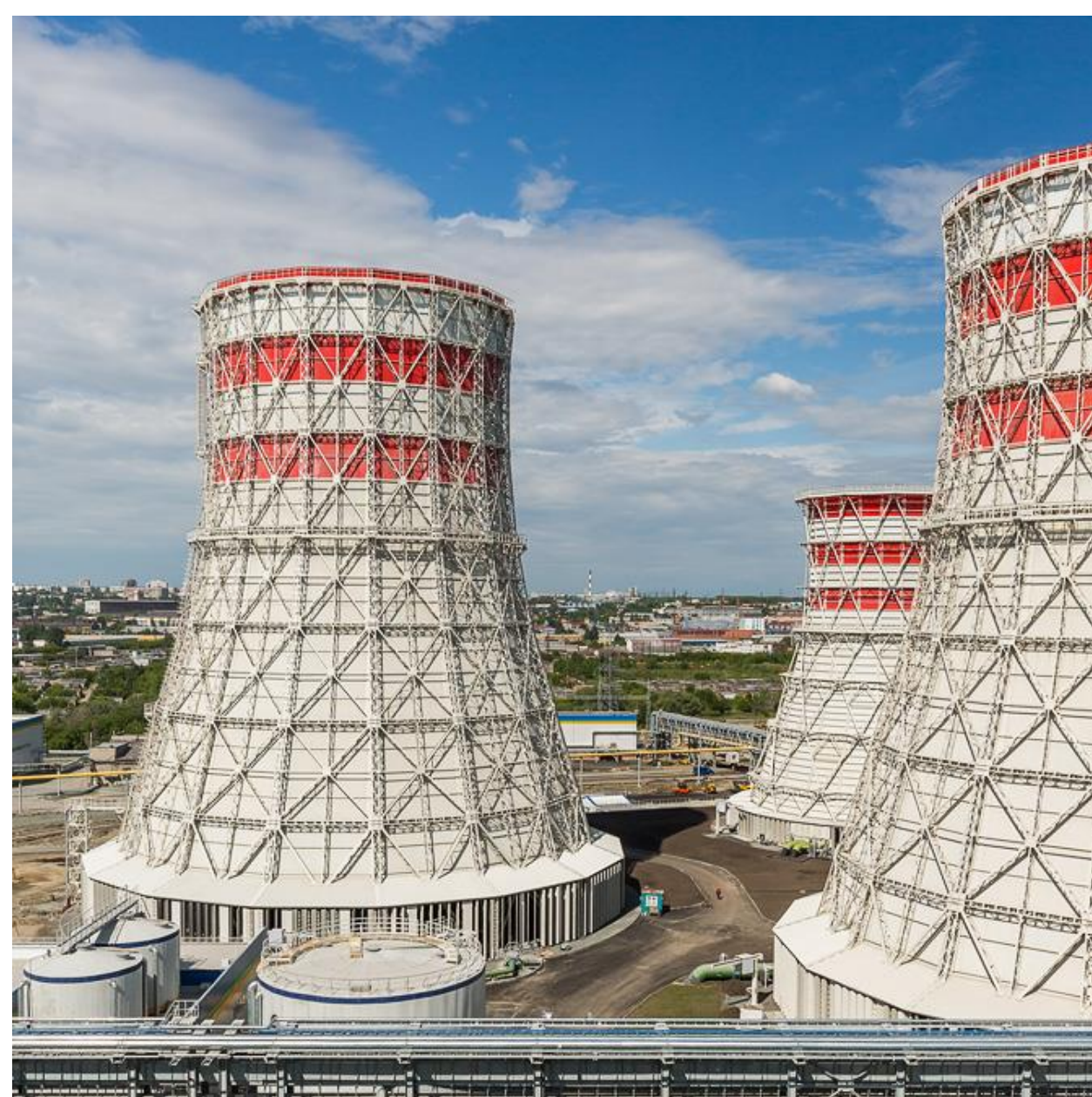
Business Priorities in Russia

Alexander Chuvaev / Executive Vice President Russia / 16 November 2016

Chelyabinsk CHP plant, Russia

Agenda

- Fortum in Russia
- Value drivers
- Development of assets
 - Competitive position
 - CSA mechanism creates results stability
- Macroeconomics and market outlook
- Potential growth opportunities
- Heat market reform
- Summary



Fortum in Russia

OA O Fortum

- Operates in Russia's oil & gas and metal producing regions (Tyumen, Nyagan, Chelyabinsk)
- Fleet is mainly gas-fired CHPs
- Current installed capacity: ~4,500 MWe

TGC-1

- TGC-1 stake: ~29%
- TGC-1 operates in North-Western Russia,
- ~7 000 MW electricity production capacity (~40% - hydro)



Our large investment program (~ EUR 2,5 billion) has been completed (2008-2016)

Mar 2013 - Dec 2014

Nyagan

~1,300 MWe



Feb 2011, Dec 2011

Tyumen, Tobolsk*

425 MWe



June 2011 – Oct 2016

Chelyabinsk

~810 MWe



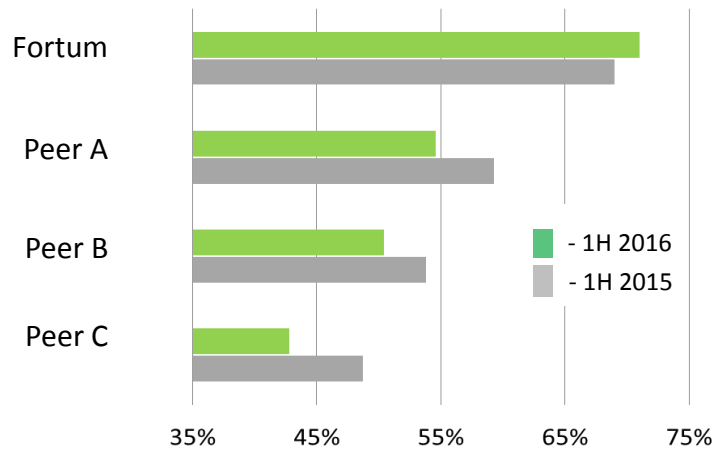
*Tobolsk power plant was sold in Q1, 2016 with gain on sale of ~30 MEUR

Fortum Russia development: 2008 => 2015

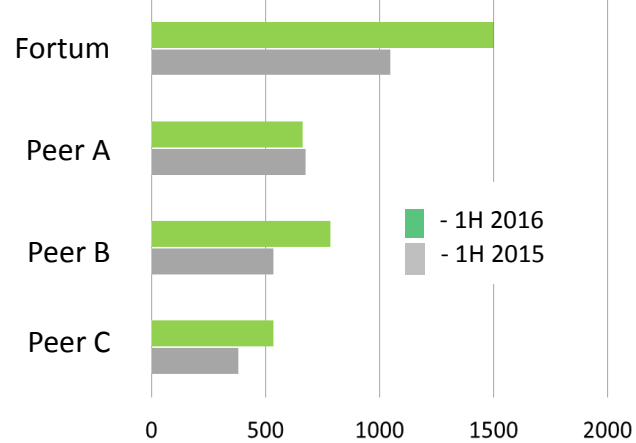
	2008		2015
Capacity	2,785 MWe	<ul style="list-style-type: none"> Commissioning of new capacity Improvement of operational performance Efficient fuel portfolio management Headcount optimisation Cost reduction Heat reform CSA units upgrade 	4,903 MWe <i>(new capacity ~ 44%)</i>
EBIT	EUR -69 million		EUR 234 million
RONA, %	-4%		8%
EBITDA Margin, %	-4%		36%
Total / Specific Headcount (per MWe)	7,262		4,126
	2.6		0.8

Fortum Russia competitive position

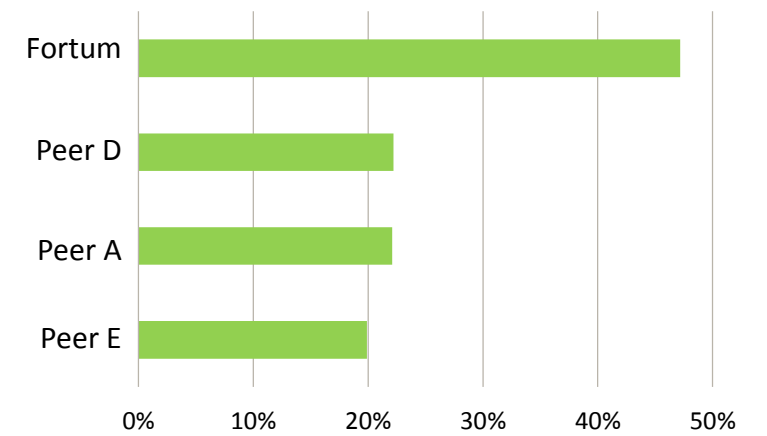
Capacity factor (1H 2016/1H 2015, %)



Specific Net Profit, (1H 2016/1H 2015)*, kRUB/MWe



New capacity share in the company's fleet



*According to Russian Accounting Standards

Russia results secured by CSA mechanism

RUB 18.2 billion to be achieved in 2017-2018

~49% of Fortum capacity

Revenues guaranteed
for 10 years

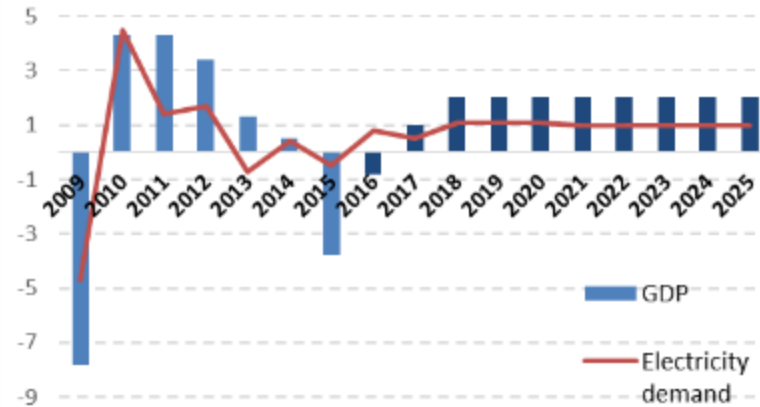
CSA balancing mechanism
mitigates macroeconomics &
market volatility

- Russian market is one of the key markets for Fortum
- Despite short-term fluctuations the long-term growth is quite stable due to fundamental trends
- Stable growth of Fortum income from operations in Russian market was driven by CSA projects implementation
- These projects are secured by unique CSA mechanism, which hedges macroeconomic changes (government bonds & forex rates) and market volatility
- Basic rate of return for CSA projects: ~12–14% (CSA WACC)

Fortum has the highest ratio of CSA capacity in its portfolio.
This is a reliable platform for future sustainable growth

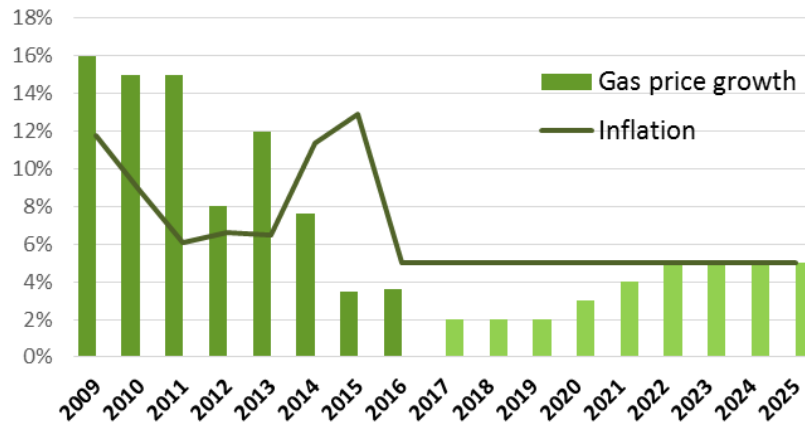
Looking into the future

GDP growth forecast, %

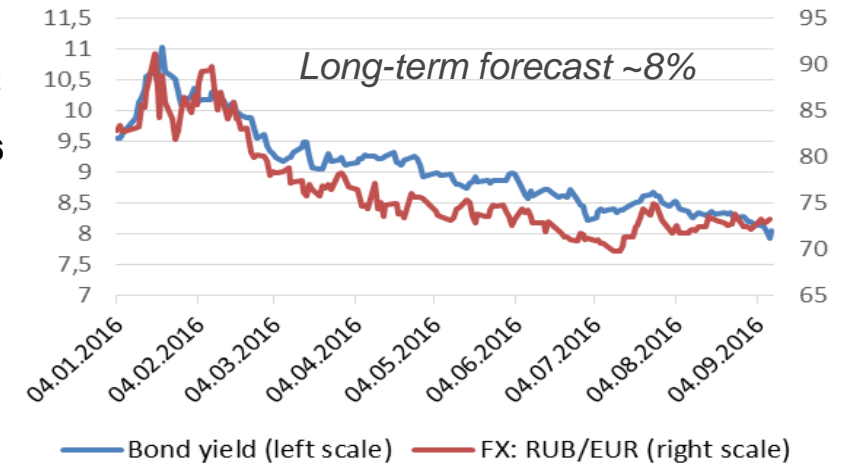


- Russia GDP growth is expected after 2016
- Gas price growth is lower than inflation rate until 2020 due to global trends and gas market development in Russia
- Bond yield is expected to stabilize at the current level
- Excess capacity in the market beyond 2020

Gas price growth and inflation, %



Russian government bond yields and FX 2016



Russia value drivers

Revenue drivers

- CSA returns
- Heat tariffs & Heat reform development
- Equipment availability

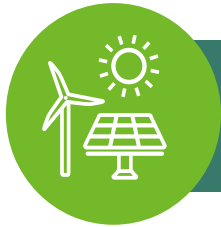
Cost drivers

- Equipment efficiency
- Fuel price dynamics and fuel portfolio optimisation
- Inflation rate
- FX rate
- Taxation

Potential growth areas



Current assets efficiency improvement (including TGC-1):
Key basis for further growth



Renewables:
Significant project portfolio in Wind & Solar



Heat market development:
Driving fair & financially-sound regulation



Fuel portfolio management:
Increasing efficiency & hedging the supplies

Current assets efficiency improvement examples



Chelyabinsk CHP-1

Repowering & Partial
Decommissioning



Nyagan

Nyagan CSA units Upgrade
(+100 MWe)

Units 1, 2: completed in 2015–
2016, Unit 3: full refurbishment
completion in 2017



Chelyabinsk CHP-4

Increasing efficiency
of heat production



Tyumen CHP-1

Repowering & Partial
Decommissioning

Fuel portfolio optimisation



Chelyabinsk CHP-2



Argayash CHP

Utilising gas exchange opportunities



- Maximising gas exchange purchasing
- Long-term contracts optimisation

Growth opportunities in CSA-secured renewables

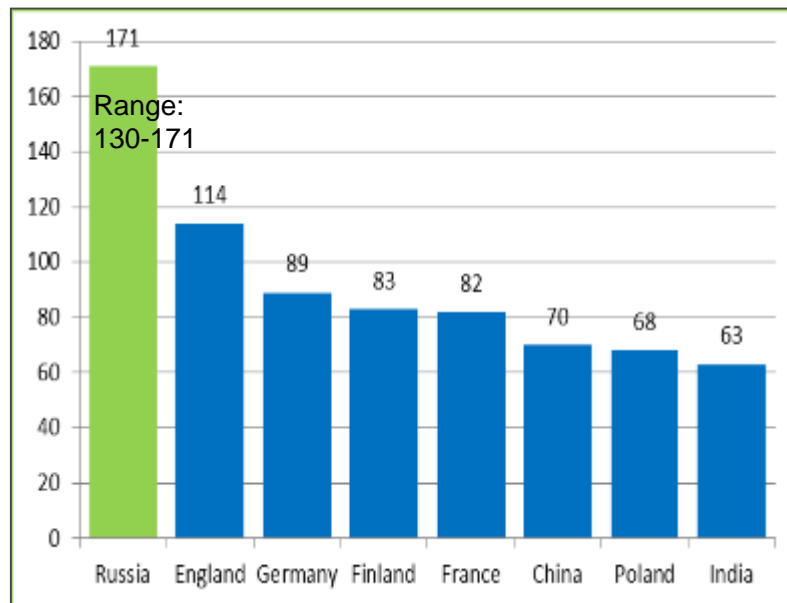
Russian Renewables regulation is favorable and sustainable

Overall market till 2024
~3,600 MW - wind
~1,600 MW - solar

Revenues are guaranteed
by 15 years CSA mechanism

Localisation requirements to
be fulfilled

Wind electricity price (EUR/MWh)



*Fortum II, IEA, Regional RES support schemes information

First CSA Wind project in Russia: Fortum's Ulyanovsk Wind farm

- Dec 2015: RES capacity selection won with ~174 EUR/MWh electricity price
 - First utility scale wind farm in Russia, 35 MW
 - Commissioning: 2017
- Fortum obtains unique wind-related Russian competencies with Ulyanovsk project
 - It may be used for larger CSA guaranteed wind portfolio development projects in Russia

Heat market reform

Current status of the legislation development

- Current version of legislation is being discussed in the State Duma (Parliament)
- It assumes initial heat market liberalisation in several pilot regions defined by the Government
 - The legislation is expected to be approved by the Parliament in Q1-Q2, 2017
 - Pilot areas will be defined after the approval of legislation in 2017

Basic principles

- Heat price deregulation with the price-cap at the level of the “alternative heat-only boiler” is to be set up in heating system
- The heat tariffs are to be gradually transitioned to reach “alternative HOB” level within up to 5-10 years
- Upon reaching price-cap the heat tariff regulation is to be abolished

Growth perspectives

Developing growth opportunities

- Renewables projects
- Fuel portfolio optimisation
- Assets restructuring
- Heat markets development

Focus is on

- Sustaining current assets profitability
- Implementation of CSA wind project
- Securing the projects revenues by CSA
- Increase of operational and cost efficiency

Summary

- Investment programme executed and is delivering results
- RUB 18.2 billion EBIT to be achieved 2017-2018
- Results secured by 10 year CSA mechanism
- Heat reform creating possible new revenue streams
- Several other growth opportunities



Nyagan power plant, Russia



For more information, please visit
www.fortum.com/investors