

# **Hafslund – Major Step in Nordic Power and Heat Strategy**

Investor Presentation

May 10, 2004



# Transaction Highlights

- **Fortum to acquire City of Oslo's 53.7% share of capital in Hafslund for approx. EUR 660 million (approx. NOK 5.4 billion)**
  - **67.5 million A-shares and 37.3 million B-shares**
  - **NOK 53.0/A-share and NOK 48.0/B-share**
- **Together Fortum's existing Hafslund shares and City of Oslo's stake account for 87.8% of Hafslund's capital and 91.3% of votes**
- **Fortum's total acquisition price for 100% of Hafslund is NOK 45.4 per share (approx. EUR 1.1 billion)**
  - **AV/EBITDA 9.6x post synergies**

# Transaction Highlights (Cont'd)

- **The agreement is endorsed by Oslo City Board (Byrådet)**
  - **Closing subject to City Council (Bystyret) approval (May 26) and no higher offers by early July**
  - **Expected closing during the summer followed by mandatory tender offer**
- **Acquisition financed by bank borrowings**
  - **Internal cash flows to pay down debt over time**

# Financial Impact

	<u>EUR million</u>
Total value of City of Oslo shares	660
Value of minority shares	140
<hr/>	
Total equity consideration	800

- In addition, Fortum will assume EUR 1.4 billion of net financial debt
- Acquisition expected to be accretive to earnings in 2006 (pre-goodwill amortization)
- Fortum maintains strong balance sheet and credit profile
  - Pro forma gearing 113%

# Major Step in Fortum's Nordic Power & Heat Strategy

- **Leader in all key markets**
  - **#1 in Norwegian and Nordic Distribution and Retail**
  - **#2 in Nordic generation (increases CO<sub>2</sub>-free generation capacity)**
  - **Strong platform for further development with skills and scale**
  - **Excellent geographic fit**
- **Attractive financial benefits**
  - **EUR 20 million of annual synergy benefits by 2006 in addition to Hafslund's own efficiency improvement target of approx. EUR 50 million**
  - **Increased share of stable Distribution cash flows**

Fortum focuses on the Nordic energy market as a platform for long-term profitable growth

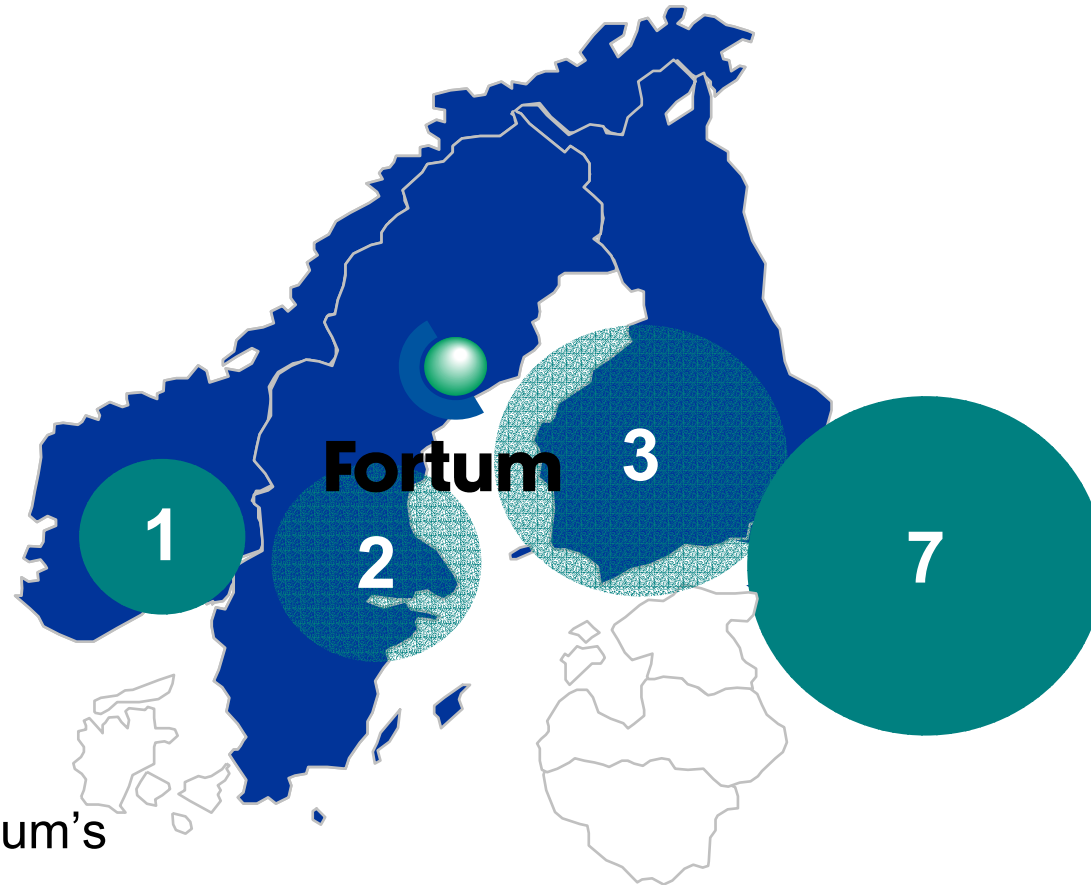
Create the  
Leading  
Power and heat  
company

Become the  
energy supplier  
of choice

Strengthen  
Position as the  
Leading clean  
Fuels refining  
company

Excel in business performance

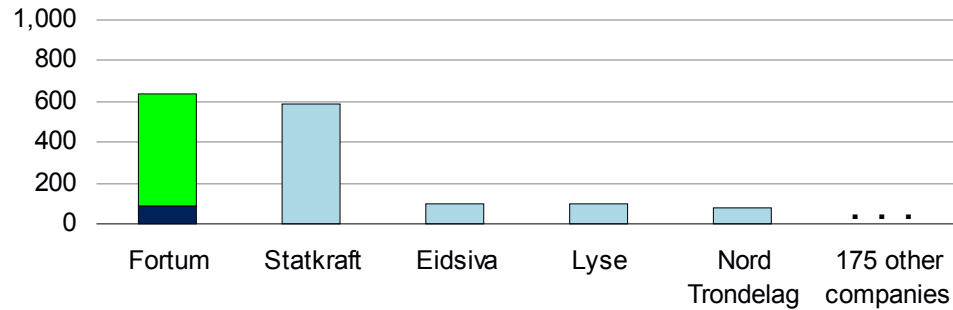
# The Leading Pan-Nordic Power and Heat Company



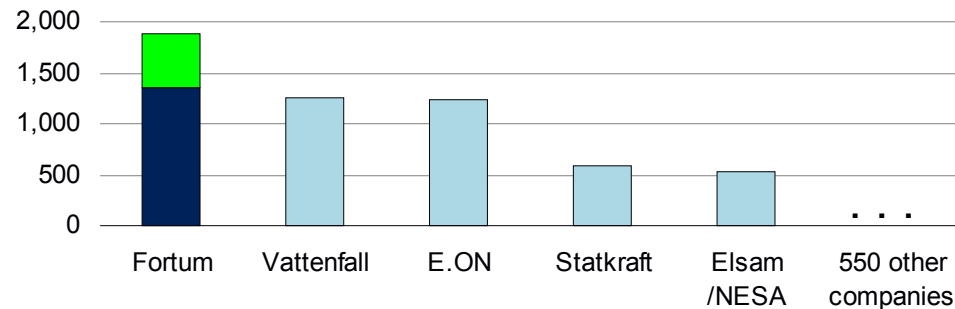
Population in Fortum's  
key markets  
Million

# Leader in Distribution

**#1 in Norwegian Distribution**  
000s customers

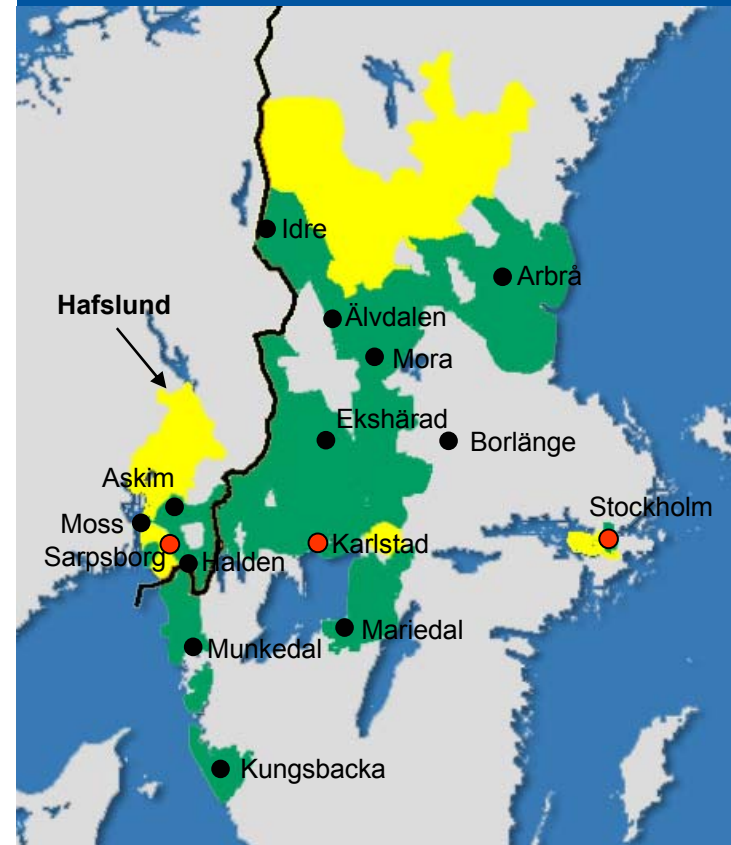




**#1 in Nordic Distribution**  
000s customers



 Hafslund  
 Fortum

**Closely Located Distribution Assets**



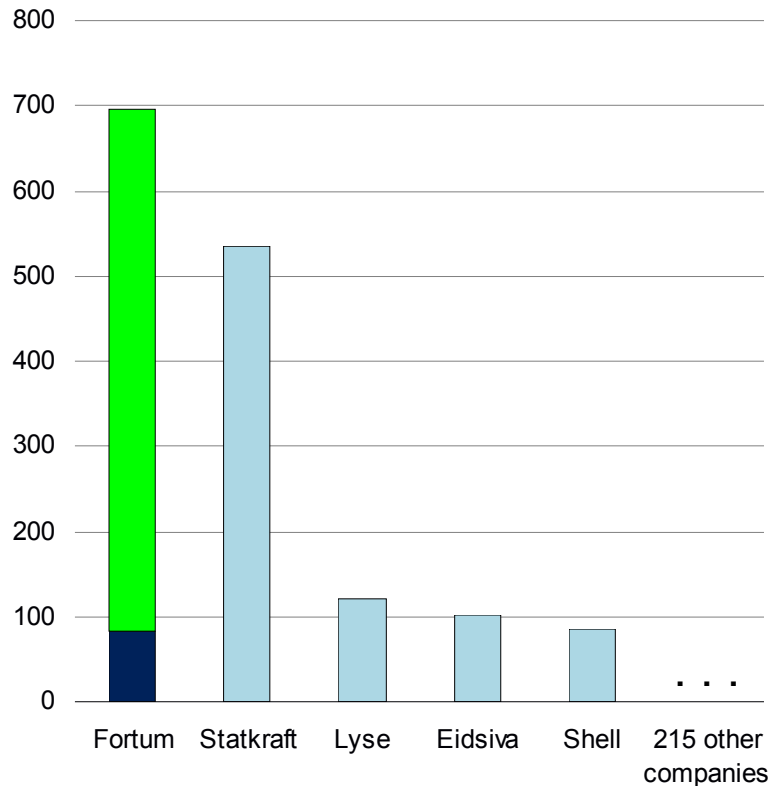
 Fully owned by Fortum  
 Partly owned by Fortum



# Leader in Retail

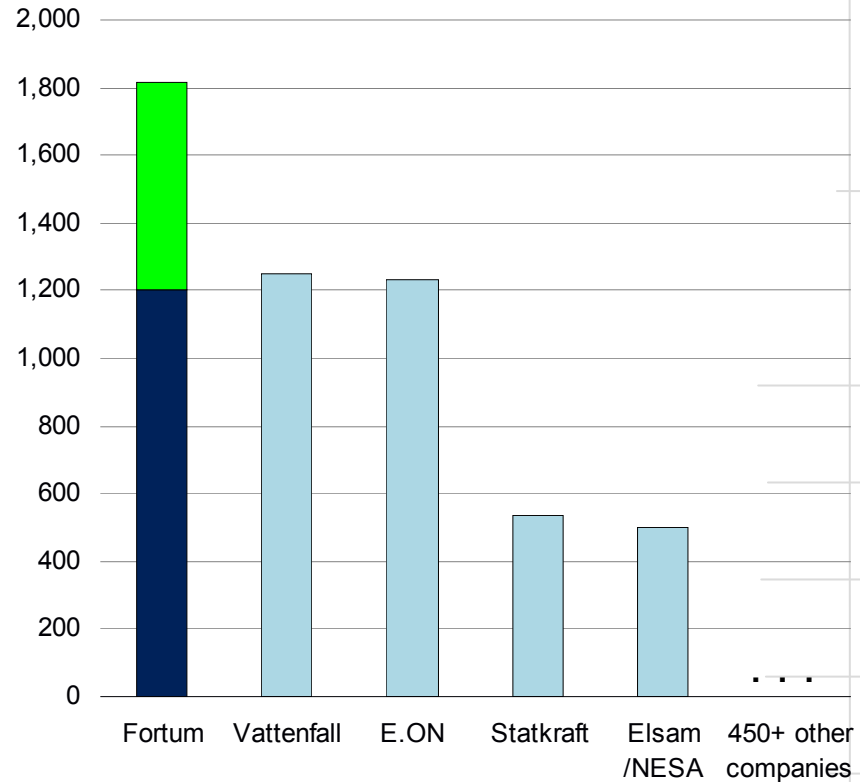
## #1 in Norwegian Retail

000s customers

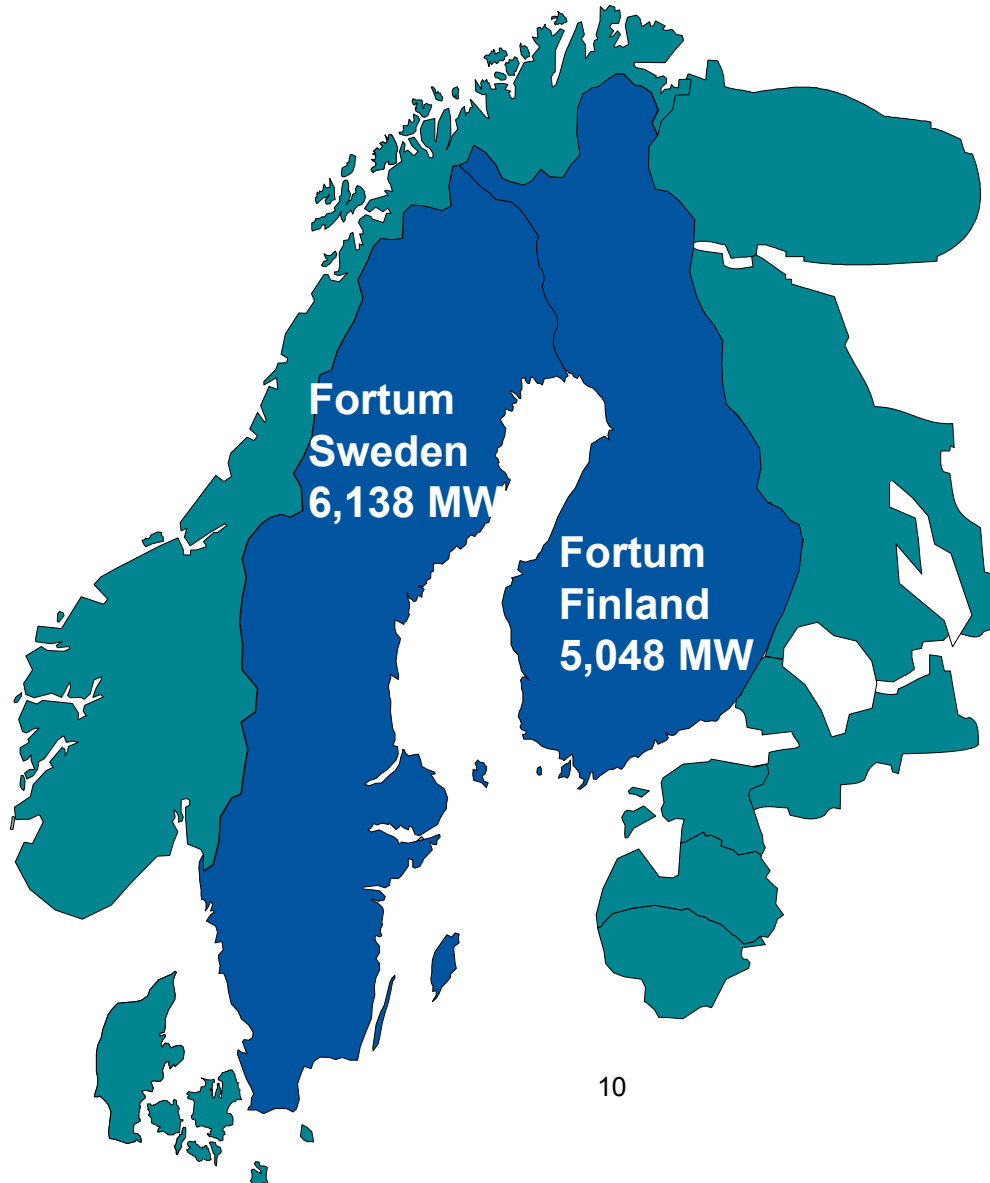


## #1 in Nordic Retail

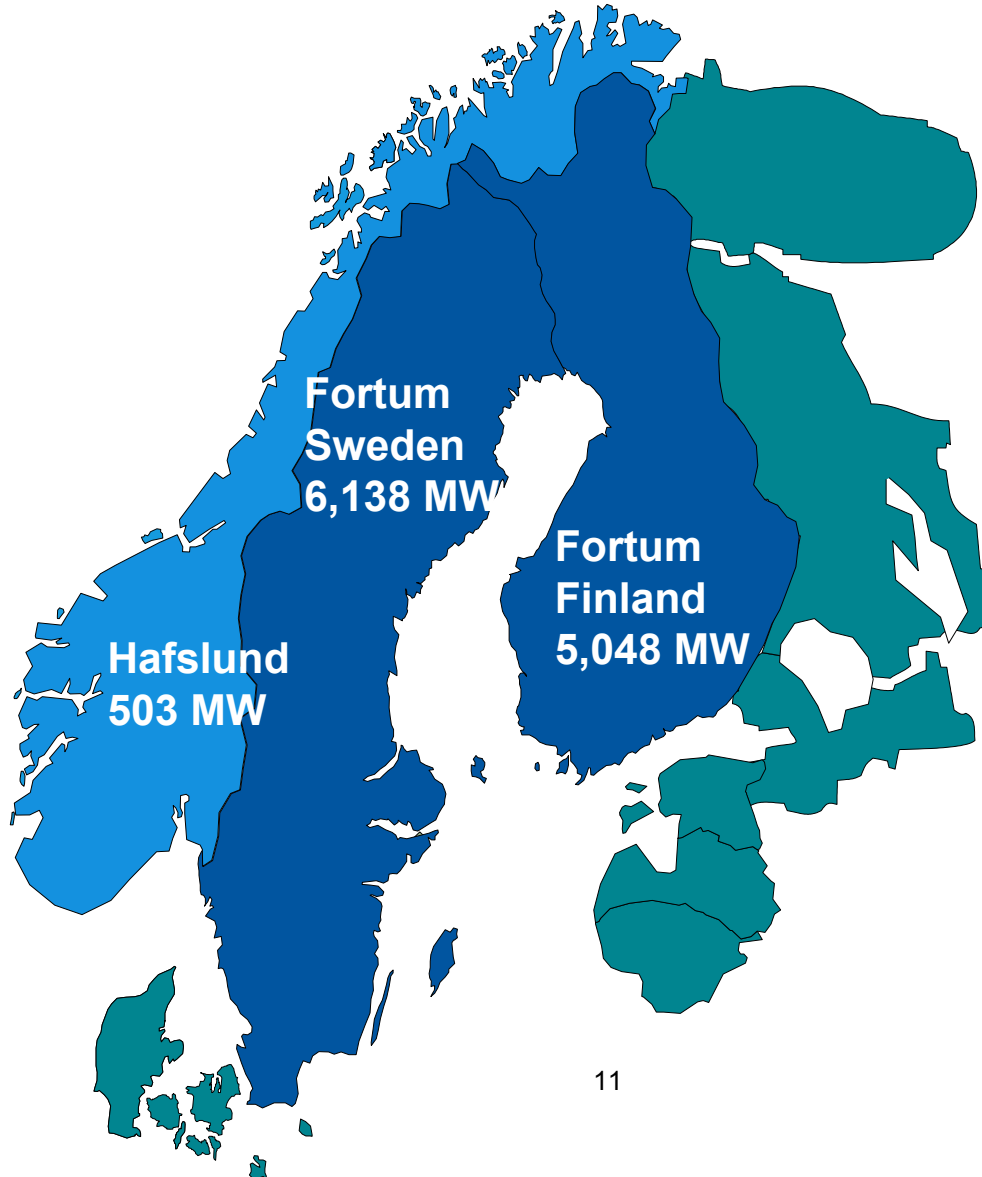
000s customers



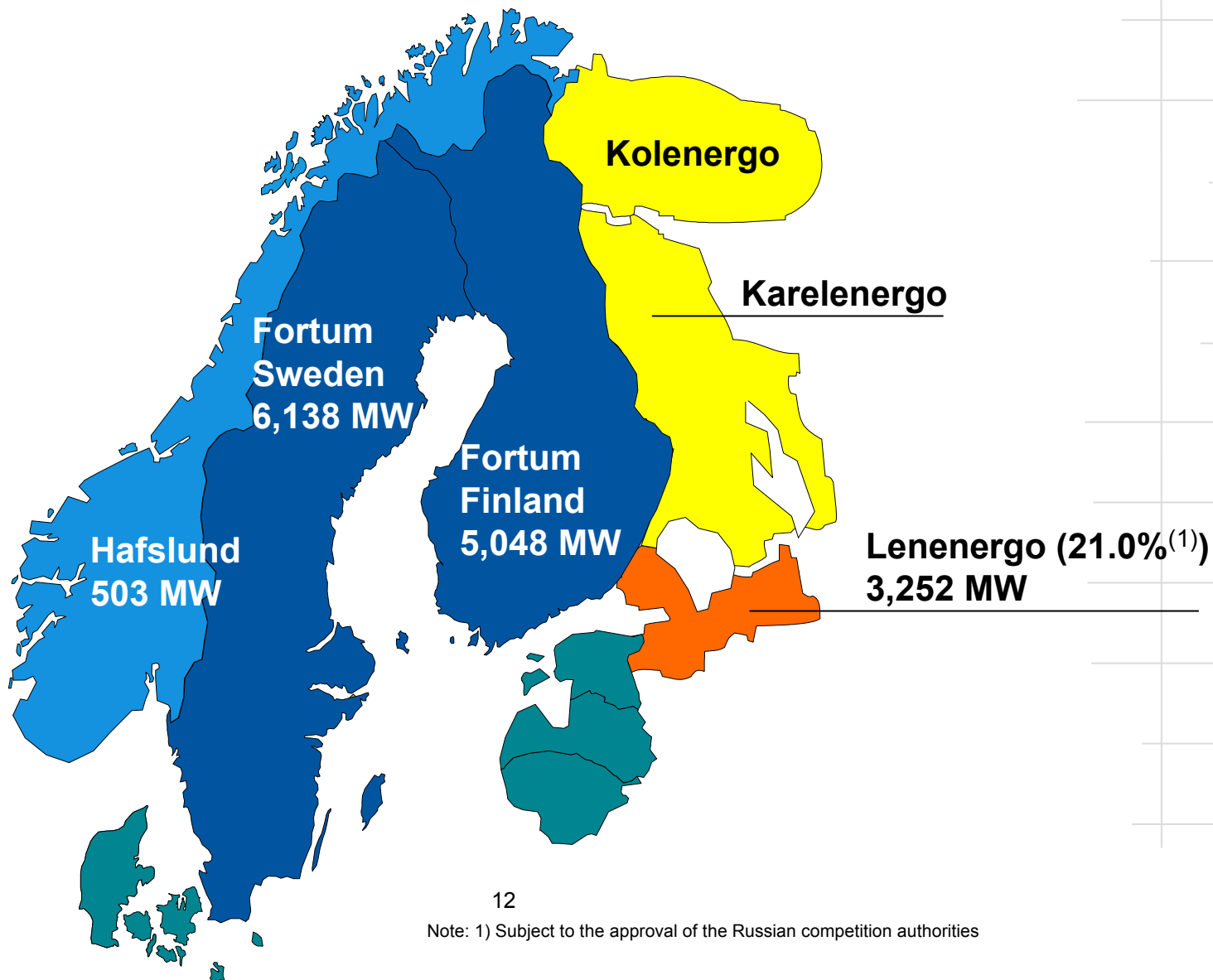
# Leading Nordic Generator with Platform for Growth



# Leading Nordic Generator with Platform for Growth



# Leading Nordic Generator with Platform for Growth



# Balanced Business Portfolio

- **Increased share of stable distribution cash flows**
- **Broader customer base**
- **Geographic and regulatory diversification**

# Attractive Synergy Benefits

**Economies of scale from  
closely located networks**



**Increased efficiency  
and sharing of  
competencies**



**Combination of retail  
businesses to reduce  
cost-to-serve**

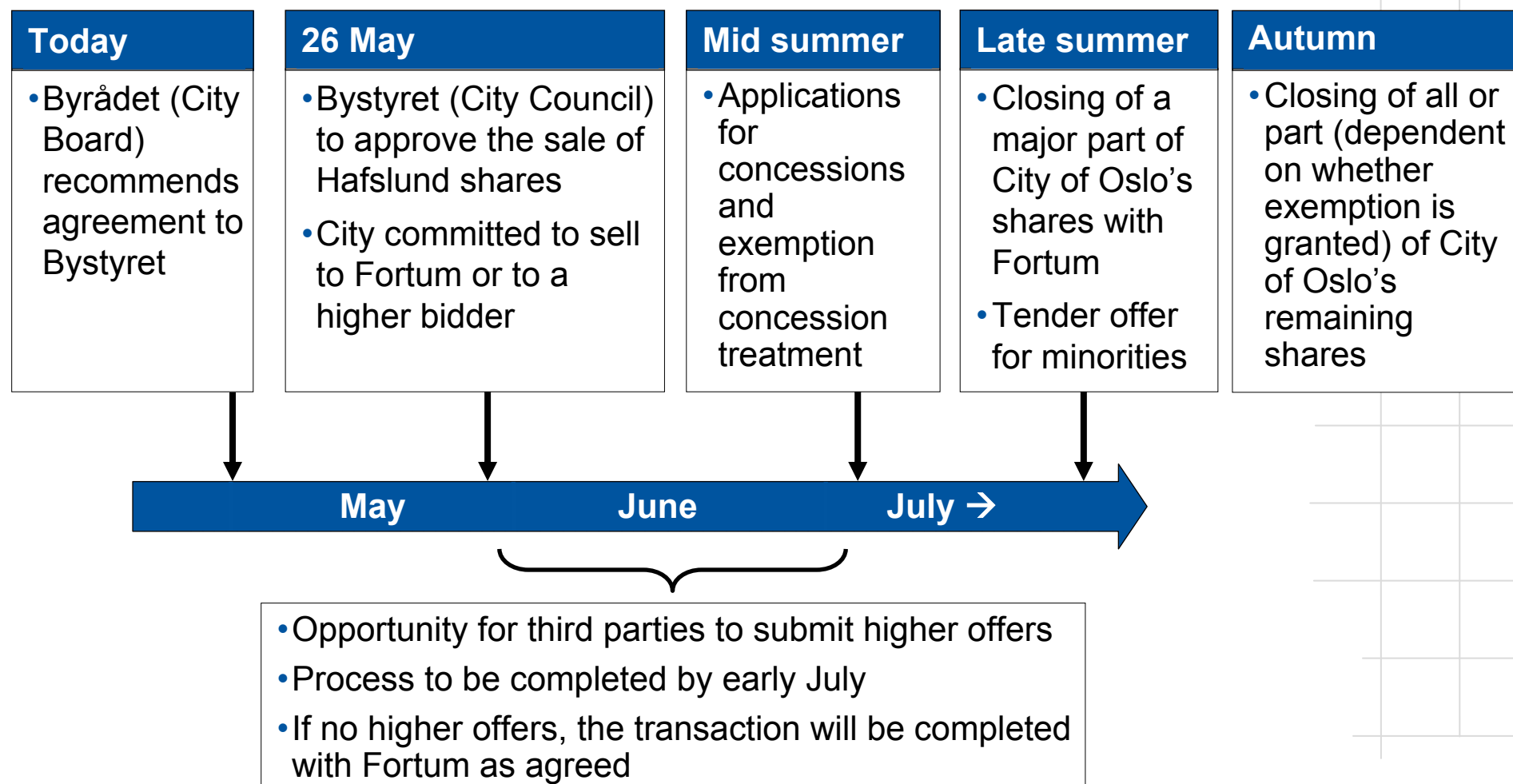


**Annual synergy benefits of EUR 20 million by 2006 in  
addition to Hafslund's own announced efficiency  
improvement target of approx. EUR 50 MM**

**+ Sharing best practices**

**+ Further development of innovative product offerings**

# Overview of Transaction Process



# Competitive Nordic Market Leader

- **Major step in Nordic power & heat strategy**
  - **#1 electricity distributor and retailer**
  - **Strengthened #2 position in Generation by adding CO<sub>2</sub>-free capacity**
- **Achieves strong position in Norway**
- **Attractive strategic and synergy benefits**
- **Excellent geographic fit**
- **Skills and scale for further development of Nordic business**



# **Appendix:**

## **Pro Forma Financials and Information on Hafslund**

# Overview of Hafslund

## Distribution

- Norway's largest power distributor with approximately 540,000 customers
- Operations are located in the south and around the south-central Norwegian cities

## Supply

- Norway's largest electricity retailer with 614,000 customers
- In 2003, Hafslund's power sales companies had a sales volume of approx. 11.4 TWh

## Generation

- Hafslund's 9 hydropower plants in Norway, located on the southern Glomma waterway, produce 2.9 TWh in an average year

## Security and Other

- Hafslund Security is Norway's second largest participant in the private sector and country's largest supplier of valuable transport services

# Overview of Hafslund (Cont'd)

## Key Financials (NOK million)

NOK million	<u>2001</u>	<u>2002</u>	<u>2003</u>
Revenues	7,079	7,228	9,300
EBITDA	1,283	1,576	1,810
EBIT	403	728	851
Net Income	(619)	(76)	188
Capex	10,689	(53)	141
Net Debt	11,415	12,197	11,326

## EBITDA<sup>(1)</sup> by Business Unit 2001-03

NOK million	<u>2001</u>	<u>2002</u>	<u>2003</u>
Distribution	1,155	1,167	1,480
Generation	406	365	493
Supply	(64)	162	57
Security	5	(71)	(51)
Contracting	0	(19)	47
Power Trade	(84)	166	(16)
Other	(135)	(119)	(119)

**Note**

1. Excluding restructuring costs

# Fortum LTM Income Statement Pro Forma for Hafslund

Income Statement (Last twelve months ended March 31, 2004)				Fortum Group
	Fortum Group	Hafslund <sup>(1)</sup>	Adjustments	Pro Forma
(EUR millions except share related data)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net sales	10,622	997 <sup>(2)</sup>	-	11,619
Expenses	(8,589)	(758) <sup>(3)</sup>	-	(9,347)
Depreciation, amort. and write-downs	(526)	(120)	(21) <sup>(4)</sup>	(667)
Operating profit	1,507	119	(21)	1,605
Financial income and expenses	(246)	(95)	(33) <sup>(5)</sup>	(374)
Profit before taxes	1,261	24	(54)	1,231
Income taxes	(365)	(12)	14 <sup>(6)</sup>	(363)
Minority interests	(76)	(1)	-	(77)
Net profit for the period	820	11	(40)	791
Earnings per share	0.97			0.94

## Notes

1. Hafslund Group information is based on the Financial Statements presented in the Annual Report 2003 and the First Quarter 2004 report multiplied by the euro exchange rate on May 7, 2004 EUR 1.00 = 8.1367 NOK. Before the assumed transaction Fortum ownership in Hafslund is 34.09%. In the consolidated Financial Statements of Fortum Hafslund Group has been consolidated according to the equity method. The pro forma information has been presented as if the acquisition of the remaining 65.91% had taken place on April 1, 2003.
2. Net sales includes the Operating revenues and Other operating revenues according to the Profit and loss account of Hafslund
3. Expenses includes the Profit from share investments and associated companies which has been included in Total financial items below Operating profit in the Profit and loss account of Hafslund
4. Highly preliminary allocations of the difference between the acquisition cost and the Group's share of the book value of the assets and liabilities of Hafslund Group, the deferred taxes and the depreciation and amortisation on those allocations
5. Acquisition debt as if it had been incurred on April 1, 2003 and the related increase in interest expense based on the Norwegian Krona interest rates on May 7, 2004 and a margin.
6. Tax effect of the increase in interest expense resulting from the incurrence of acquisition debt and the deferred taxes on the depreciation of allocated goodwill

# Fortum Balance Sheet Pro Forma for Hafslund

Balance Sheet (As of March 31, 2004)			Fortum Group	
	Fortum Group	Hafslund Group <sup>(7)</sup>	Adjustments	Pro Forma
(EUR millions except share related data)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>ASSETS</b>				
Intangible and tangible assets	11,602	1,833	533 <sup>(8)</sup>	13,968
Other long-term investments	2,449	187	(271) <sup>(9)</sup>	2,365
Current assets	2,056	385	-	2,441
Cash and cash equivalents	203	31	-	234
<b>Total</b>	<b>16,310</b>	<b>2,436</b>	<b>262</b>	<b>19,008</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
Shareholders' equity	6,376	681	(681) <sup>(9)</sup>	6,376
Minority interests	245	42	-	287
Interest-bearing liabilities	5,479	1,453	835 <sup>(10)</sup>	7,767
Interest-free liabilities	4,210	260	108 <sup>(8)</sup>	4,578
<b>Total</b>	<b>16,310</b>	<b>2,436</b>	<b>262</b>	<b>19,008</b>
<i>Interest-bearing net debt</i>	<i>5,276</i>	<i>1,422 <sup>(11)</sup></i>	<i>835 <sup>(10)</sup></i>	<i>7,533</i>
<i>Gearing, %</i>	<i>80</i>			<i>113</i>

## Notes

7. Hafslund Group information is based on the Financial Statements presented in the Annual Report 2003 and the First Quarter 2004 report multiplied by the euro exchange rate on May 7, 2004 EUR 1.00 = 8.1367 NOK. Before the assumed transaction Fortum ownership in Hafslund is 34.09%. In the consolidated Financial Statements of Fortum Hafslund Group has been consolidated according to the equity method. The pro forma information has been presented as if the acquisition of the remaining 65.91% had taken place on April 1, 2003.
8. Highly preliminary allocations of the difference between the acquisition cost and the Group's share of the book value of the assets and liabilities of Hafslund Group, the deferred taxes and the depreciation and amortisation on those allocations
9. Elimination of the Fortum Group's share of equity according to the acquisition cost method as if the acquisition had taken place April 1, 2003, and the reversal of the effect coming from the consolidation of the 34.09% shareholding of Hafslund Group according to the equity method
10. Adjustments reflect acquisition debt and costs as if it had been incurred on April 1, 2003. The acquisition debt as if it had been incurred in Norwegian krona and was translated into euro at the exchange rate on May 7, 2004 (EUR 1.00 = NOK 8.1367)
11. According to the definitions of the key figures of Hafslund, the interest-bearing net debt is calculated net of interest-bearing receivables and liquid funds while according to the Fortum definition the interest-bearing net debt is calculated net of cash and cash equivalents only. Interest-bearing net debt of Hafslund is calculated according to the Fortum principles net of cash and cash equivalents only assuming the change of net interest-bearing debt amounting to NOK381 million as disclosed in the First Quarter 2004 report of Hafslund

# Fortum Pro Forma Operating Statistics

- Power Generation Capacity (MW)
- Electricity Generation Output (TWh)
- Electricity Sales (TWh)
- Heat Generation Capacity (MW)
- Heat Sales (TWh)
- Distribution Customers ('000)
- Retail Customers ('000)

**12 Months to  
March 31, 2004**

11,847

55.9

71.9

9,688

24.1

1,915

1,814

# Calculation of Acquisition Multiple

	<u>NOK Million</u>
EBITDA as reported <sup>(1)</sup>	1,705
Restructuring costs <sup>(1)</sup>	68
Estimated transaction synergies	163
<b>Total EBITDA</b>	<b>1,936</b>
Total acquisition price for 100% of Hafslund	8,861
Net Debt <sup>(2)</sup>	10,945
Less the value of investment portfolio <sup>(3)</sup>	1,283
AV/EBITDA (post synergies)	9.6x
AV/EBITDA (pre synergies)	10.4x

**Note**

1. Last 12 months as of March 31, 2004

2. As reported as of March 31, 2004

3. Book value of investment portfolio as reported December 31, 2003. Hafslund has not included the profits from the Investment portfolio in the reported EBITDA figure.