



Fortum

Russian Energy Markets - potential for Fortum

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12 January 2004



► Fortum's scope in the Nordic and Baltic Rim area

The Nordic power market

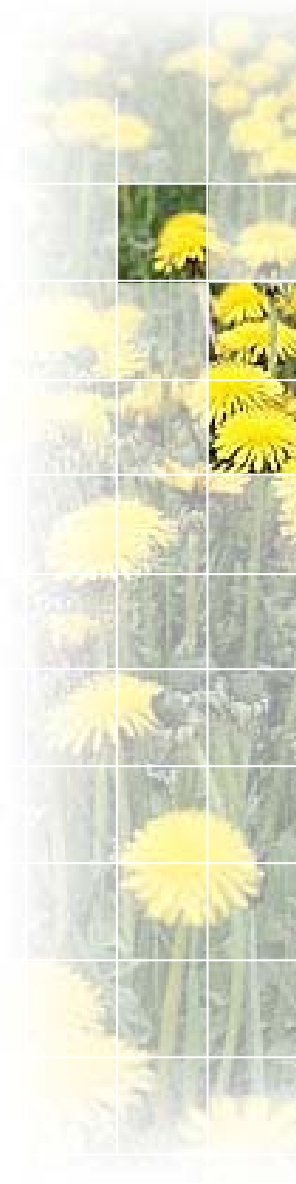
Russian power market

Russian oil market

Fortum and Russia

Separation of oil, upgrade in Porvoo

Concluding remarks



Overview of Fortum

- Second largest Nordic generator and supplier of power
- The leading provider of district heating in Finland and Sweden
- The leading Nordic refiner of clean traffic fuels

- EBIT: EUR 1.0 billion, EPS: EUR 0.64 (Q1-Q3 2003)
- Total assets: EUR 16.2 billion (30 September 2003)

- Privatised in December 1998
 - Market capitalisation EUR 7.0 billion
 - More than 50,000 shareholders



Fortum's strategy

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

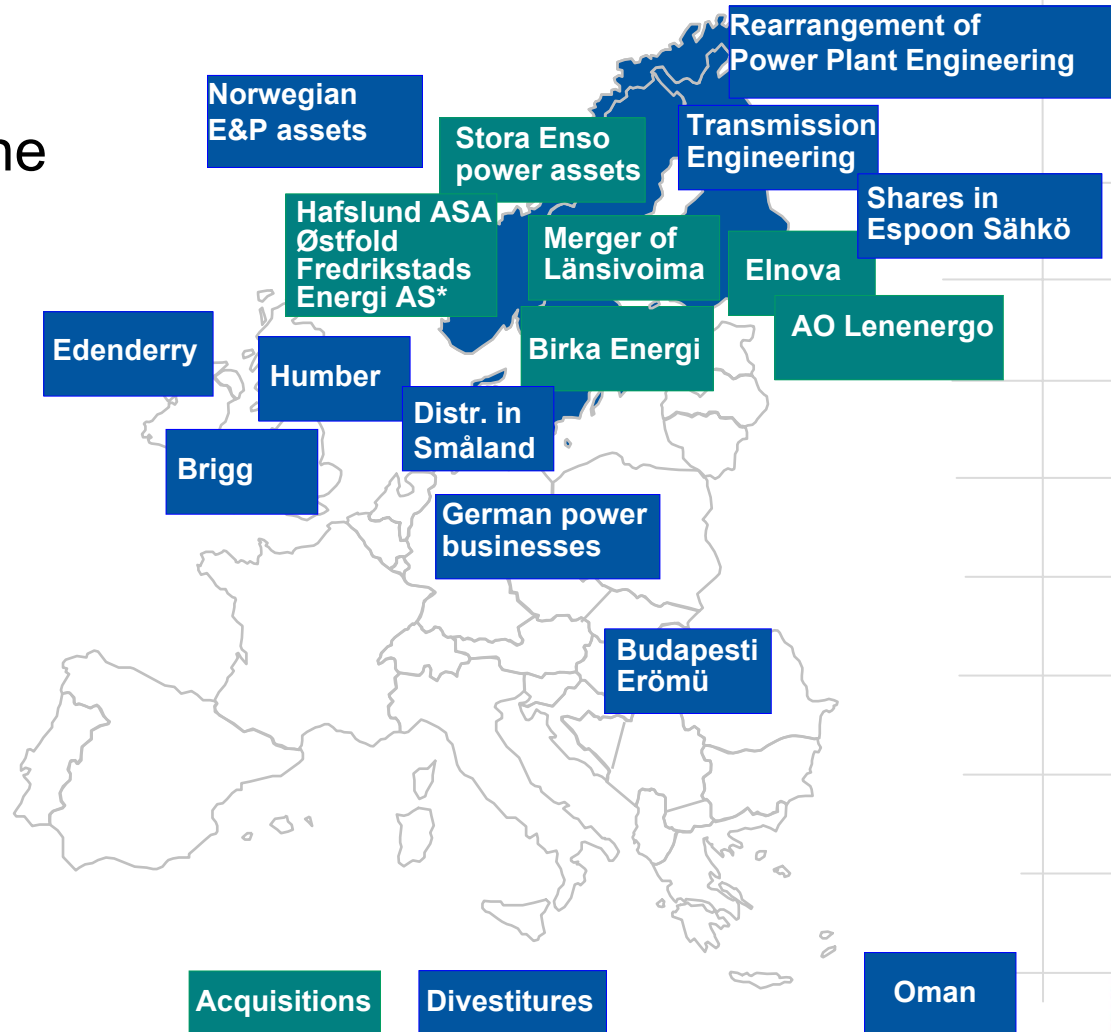
Consistency and determination

9 billion worth of restructuring 2000-2003

Focus on core businesses and the Nordic area



Billion euro



Acquisitions

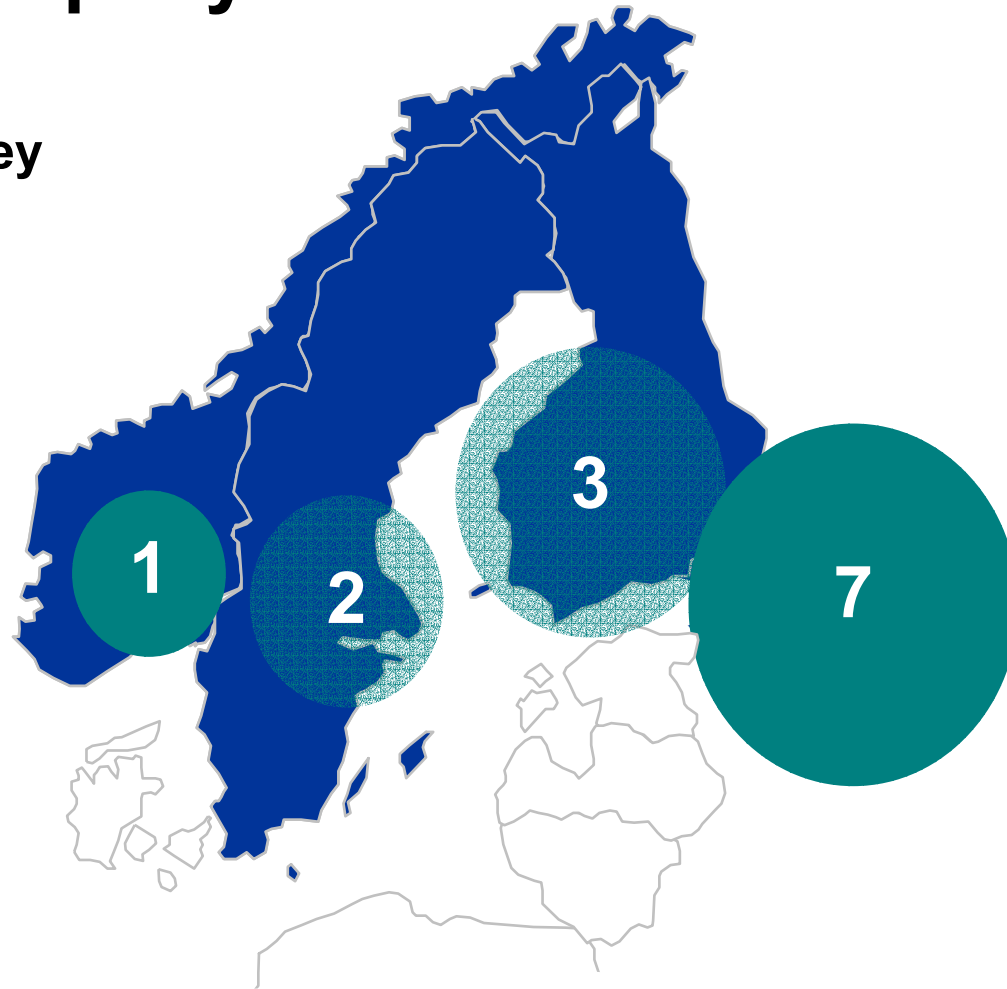
Divestitures

Oman

Strengthened presence as a leading Nordic energy company

Population in key
geographic
markets

Million



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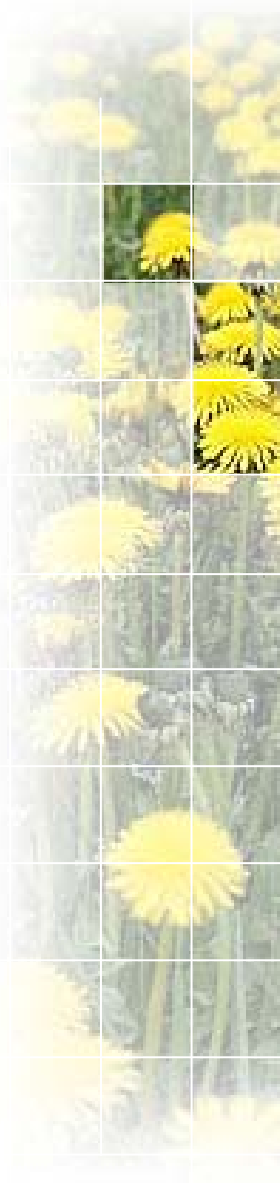
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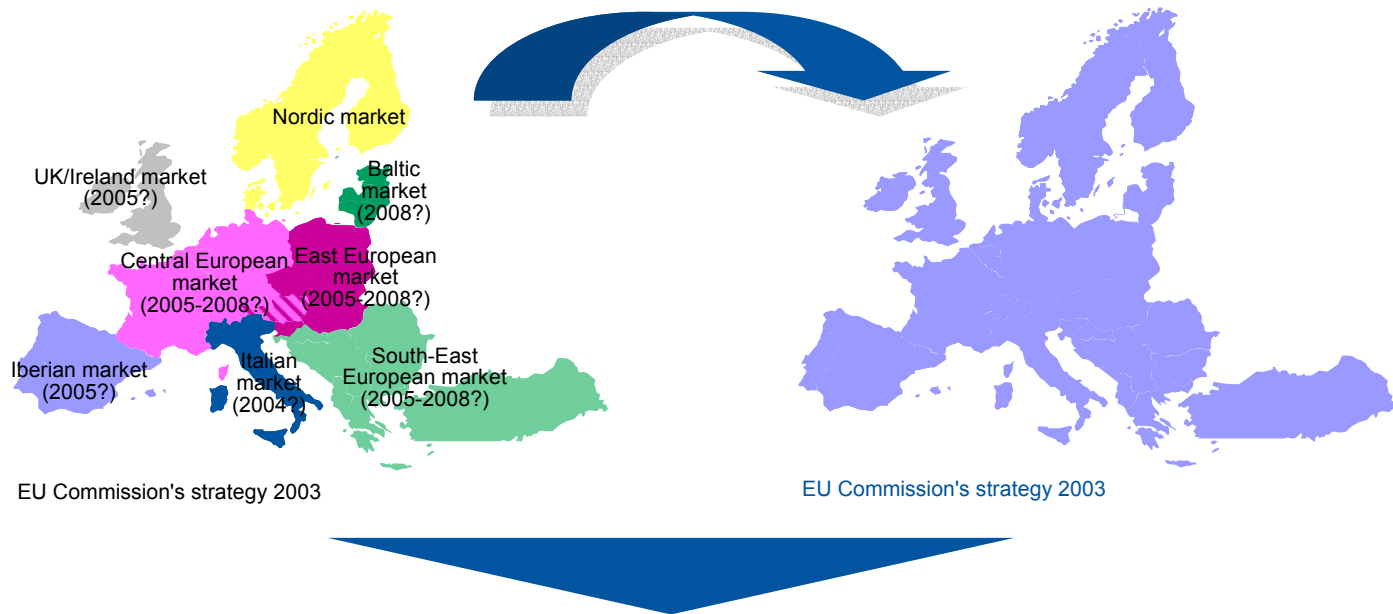
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Aiming for an open European power market

Through development of regional markets ...

... to liberalized European power market

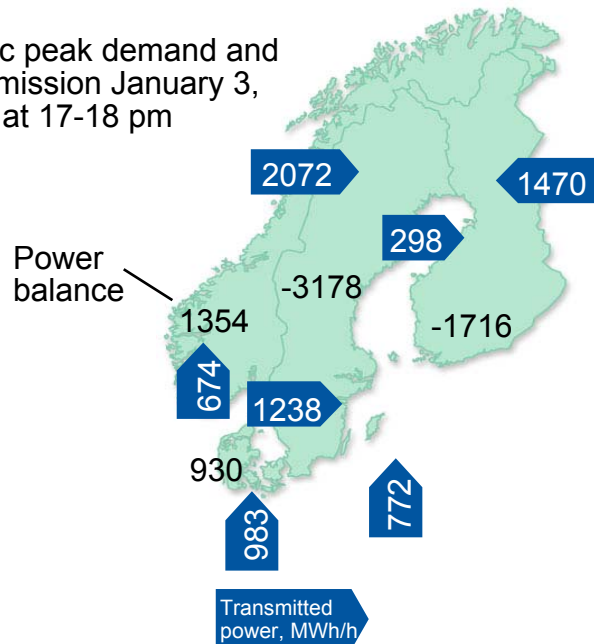


- To increase efficiency of the industry
- For the benefit of the customers and society
- To secure a healthy power sector development

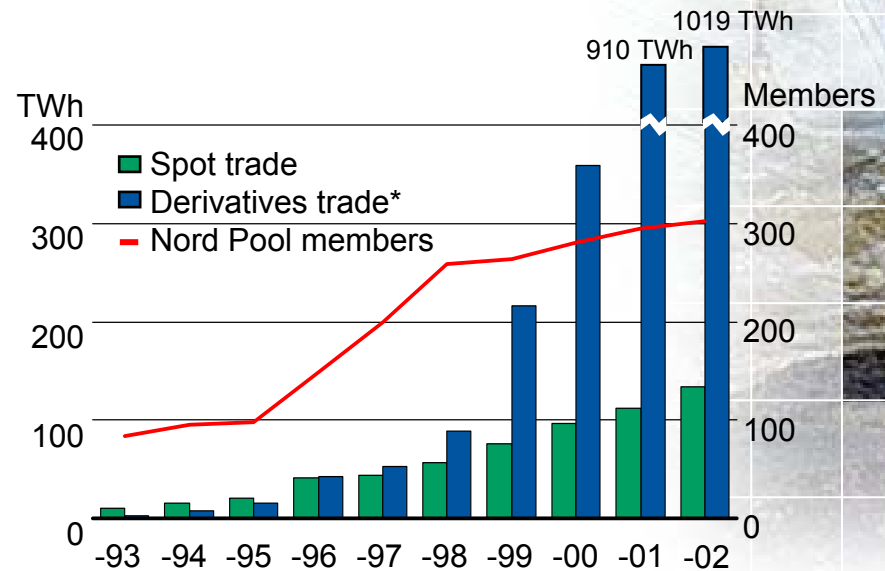
The Nordic market is at the forefront

- Free trade of electricity across the Nordic market
- No cross-border transmission tariffs
- Capability to cope even with the extreme conditions of winter 2002/2003

Nordic peak demand and transmission January 3, 2003 at 17-18 pm



- **Transparent market with hundreds of actors and comprehensive information availability**
- **Market behavior of actors scrutinized by Nord Pool and competition authorities**

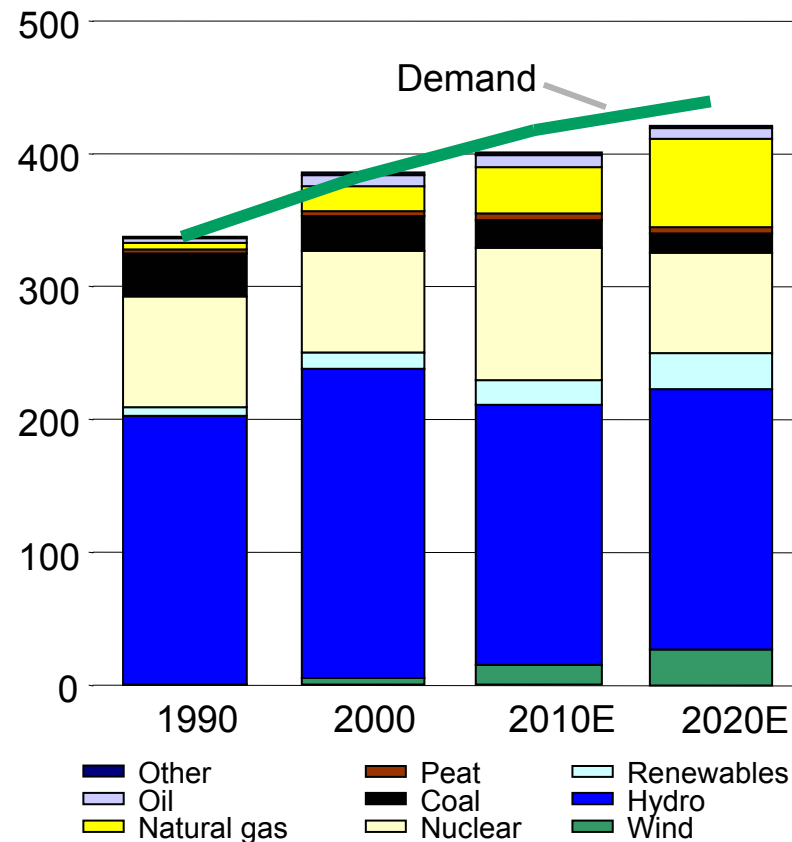


* In addition OTC clearing 1700 TWh (2001) and 2055 TWh (2002)

New capacity will be needed

Nordic generation and demand

TWh/a



In order to ensure

- long term supply security
- highest efficiency



Price signals are necessary

- New base load capacity requires a long term price of 30-35 €/MWh

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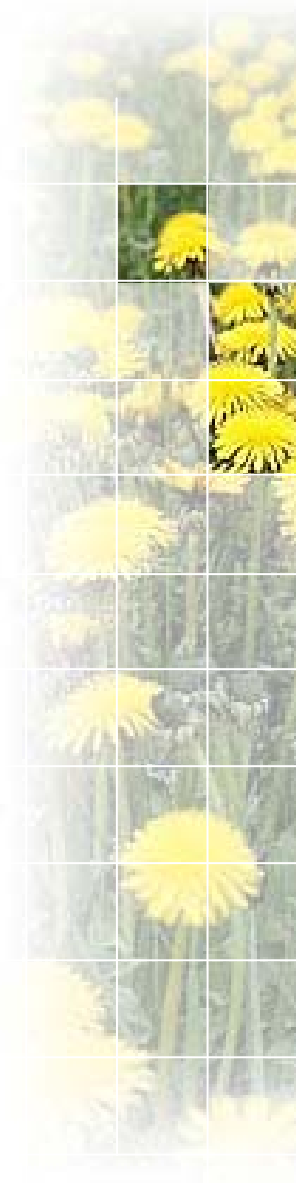
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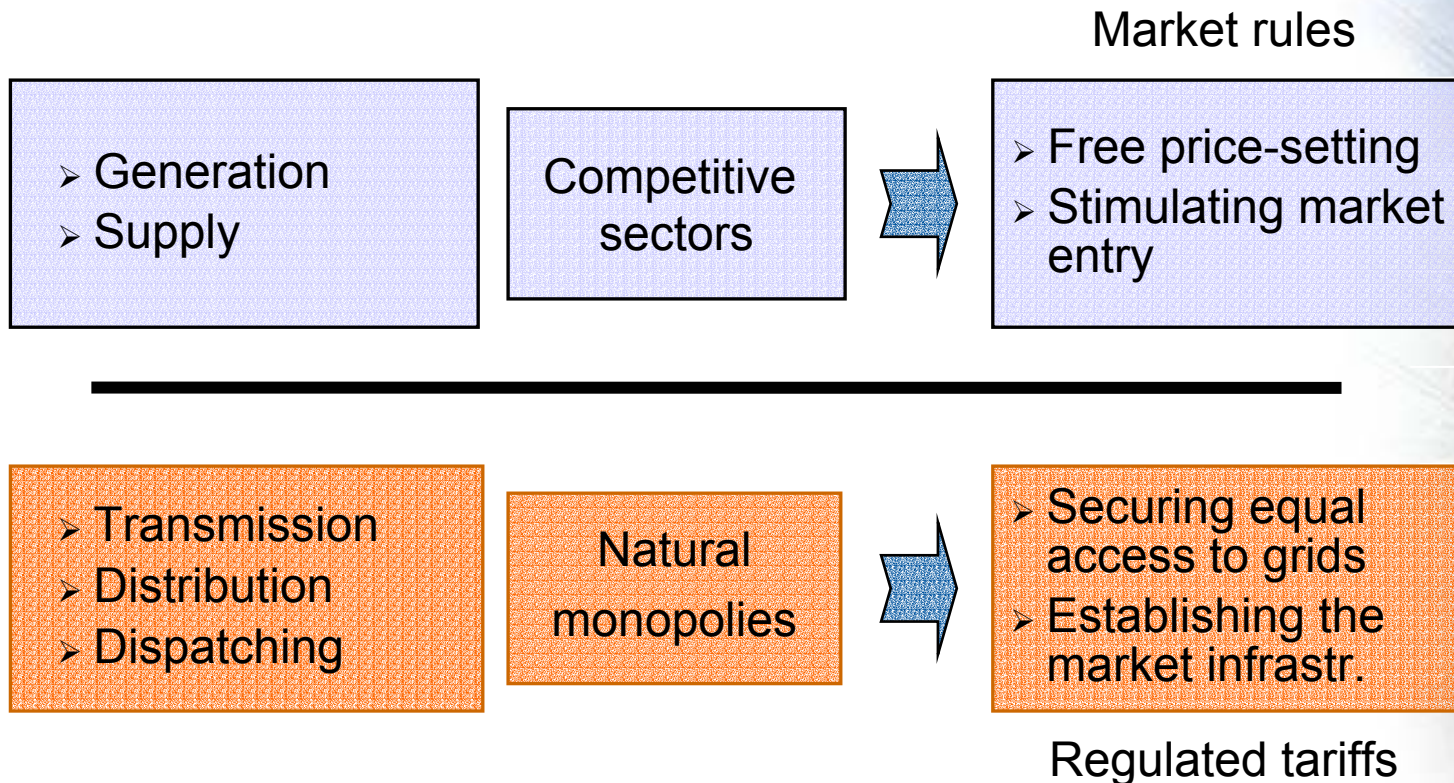
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Power sector reform – separation of monopoly and competitive sectors



First reform steps taken as planned

Laws initiating power reform has been ratified with an aim for a deregulated Russian power market by 2008.

- Action plan for sector reform 2003-2005 approved by government resolution 6/2003
- 6 thermal and 4 hydro federal wholesale generation companies to be established, auctions expected starting 2004 (pilot), rest during 2005-2006; structure of wholesale generation companies approved by government resolution 9/2003
- Restructuring in about 30 regional energy companies initiated
- Merging of regional assets expected finalized by 2006, composition suggestion for territorial generation companies published by RAO UES in November, 2003
- As of Nov 1, 2003 competitive wholesale market established; target for complete liberalization 2006



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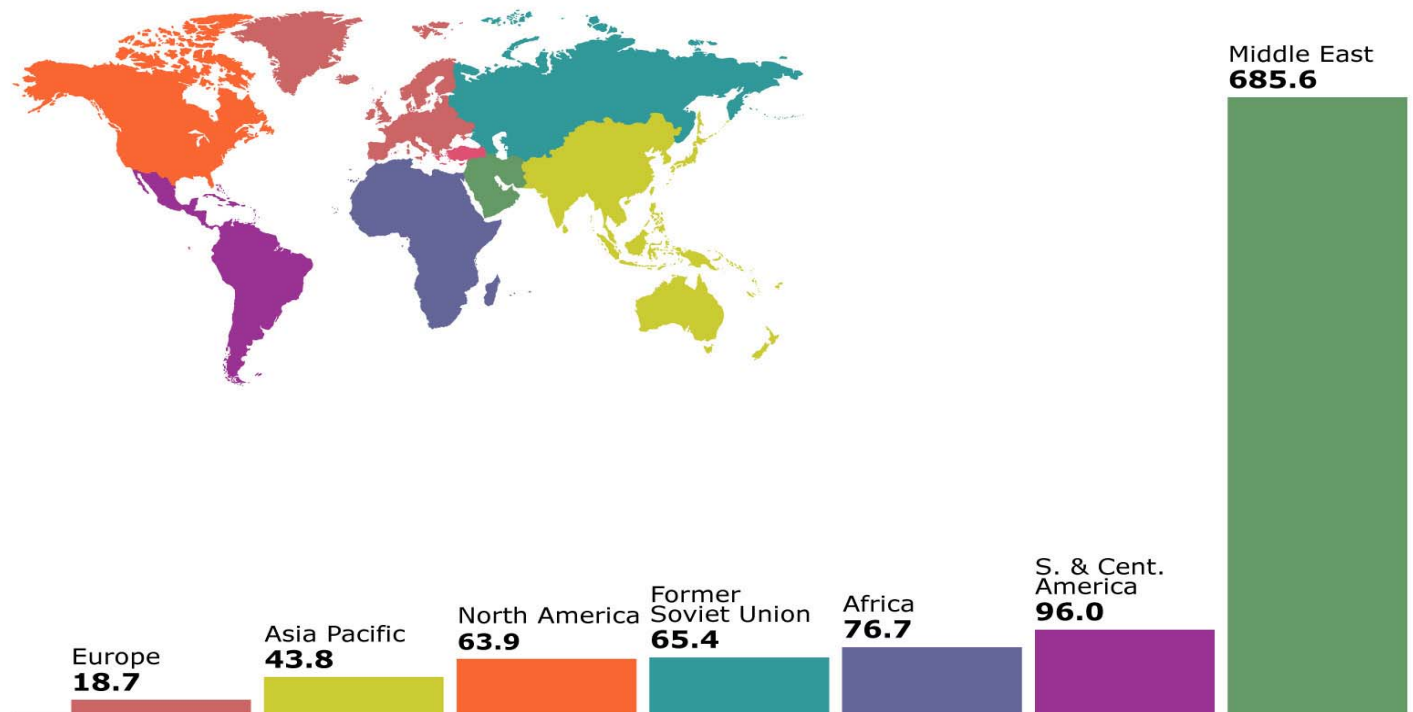
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Russia has the 4th largest oil reserves in the world

Proved oil reserves, 2002

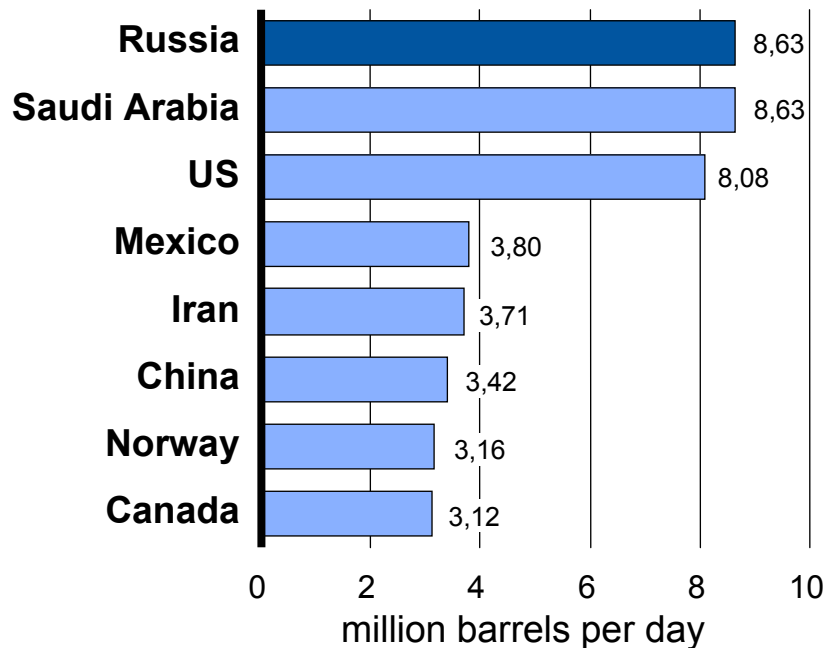
Thousand million barrels



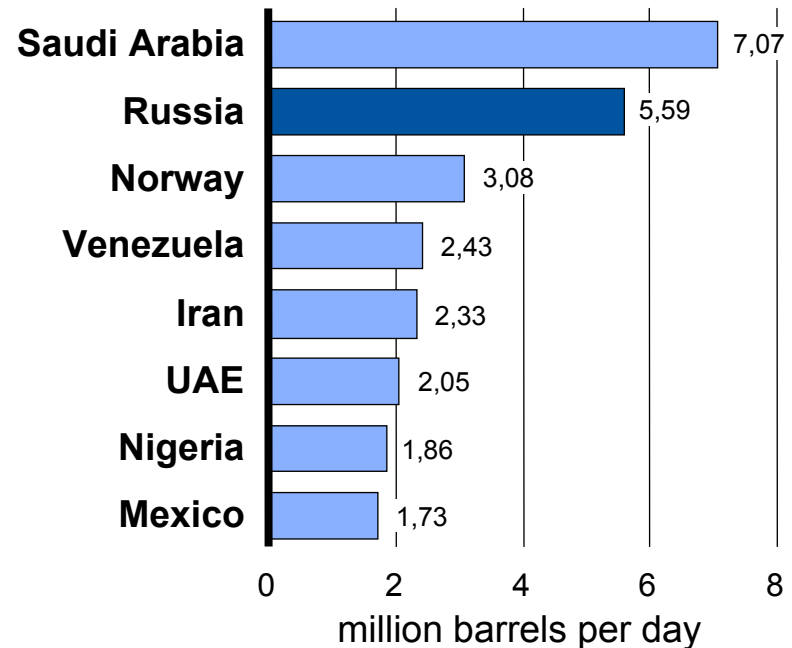
bp statistical review of world energy 2002

It is becoming a leading producer and exporter globally

Production August, 2003



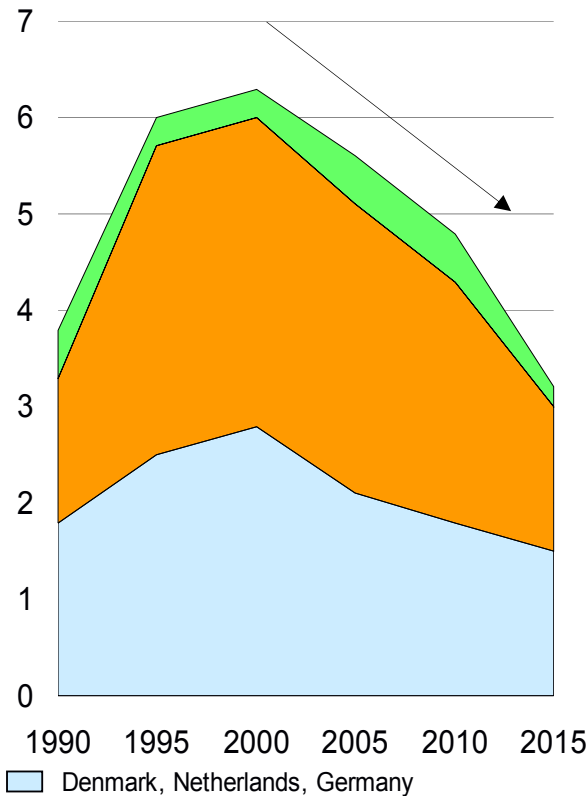
Exports, average 2002



North Sea Crude Production in Decline, Growth in Russia

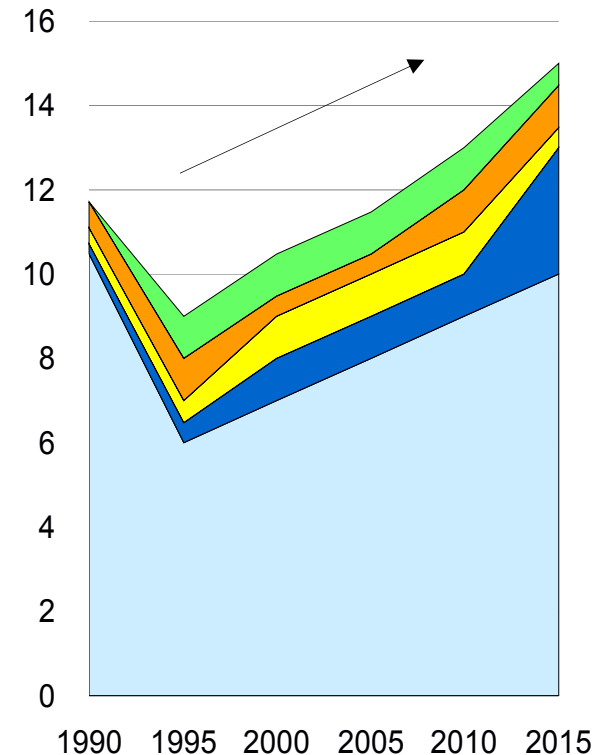
- North Sea crude production is expected to decline rapidly in the next 2-3 years
- The rapidly increasing production in Russia will more than compensate the decline in North Sea production
- European refineries should be prepared for this change as Russian crude is generally heavier and sourer than North Sea crude

North Sea Crude Production
MM barrels per day



Source PIRA

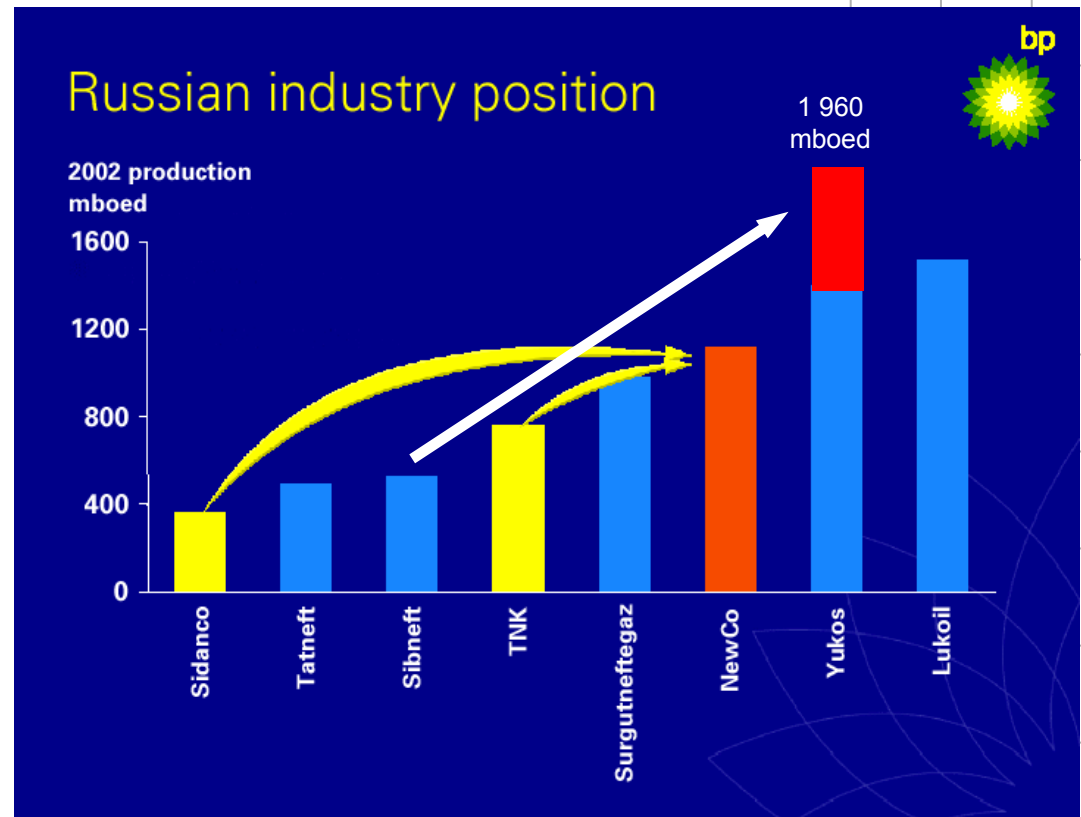
Russian and FSU Crude Production
MM barrels per day



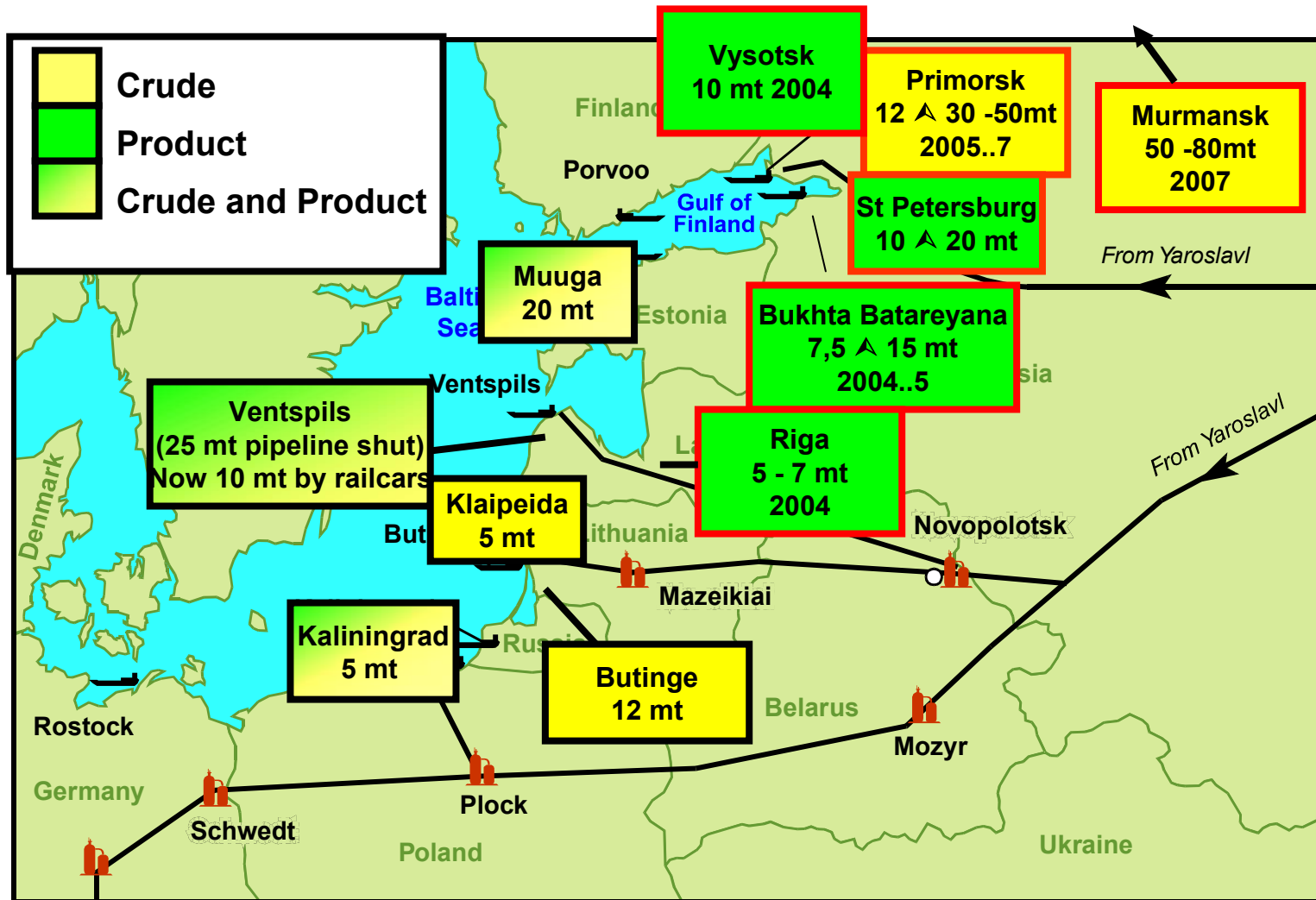
Source PIRA

Mega-mergers transforming Russian oil industry landscape

- Western majors facing decline rates in production
- US domicile potentially a disadvantage in some areas
- Gaining strong position in the Russian market with long-term growth potential
- Russian companies interesting due to relatively low valuations in comparison with western counterparts
- Yukos-Sibneft merger - one goal assumedly to block the entry of other foreign supermajors (in addition to BP) - failed
- Further negotiations with ExxonMobil (ChevronTexaco) discontinued for the time being



Significant Developments in Crude Export Routes Around Baltic Rim



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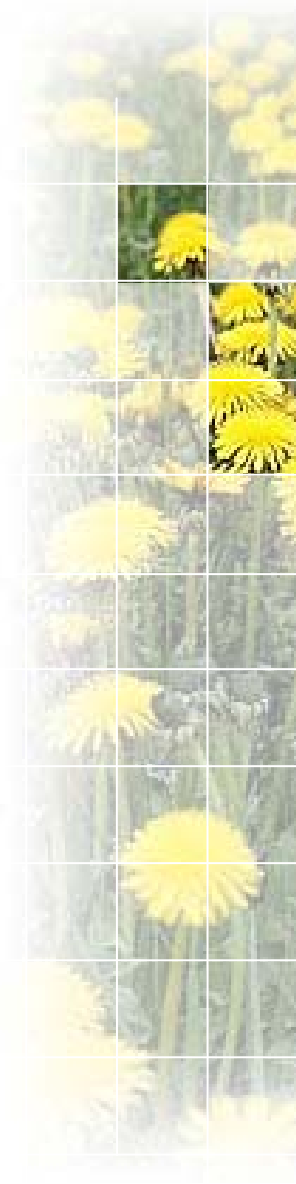
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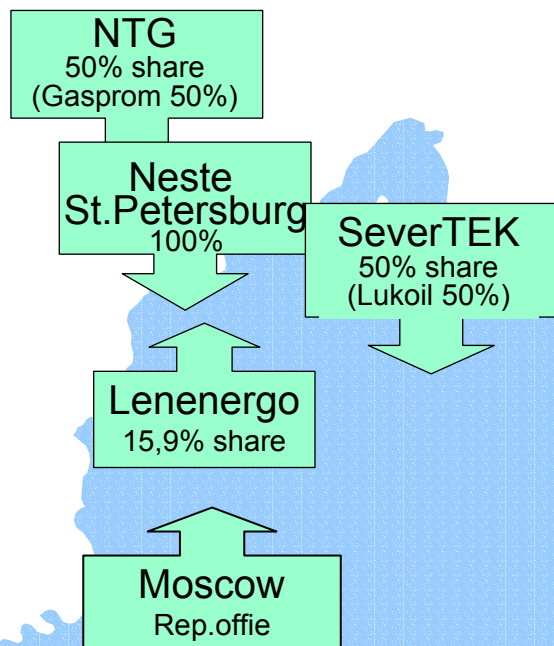
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Fortum in Russia today



Business in Russia

Crude and feedstock sourcing
Power imports
Nuclear fuel imports

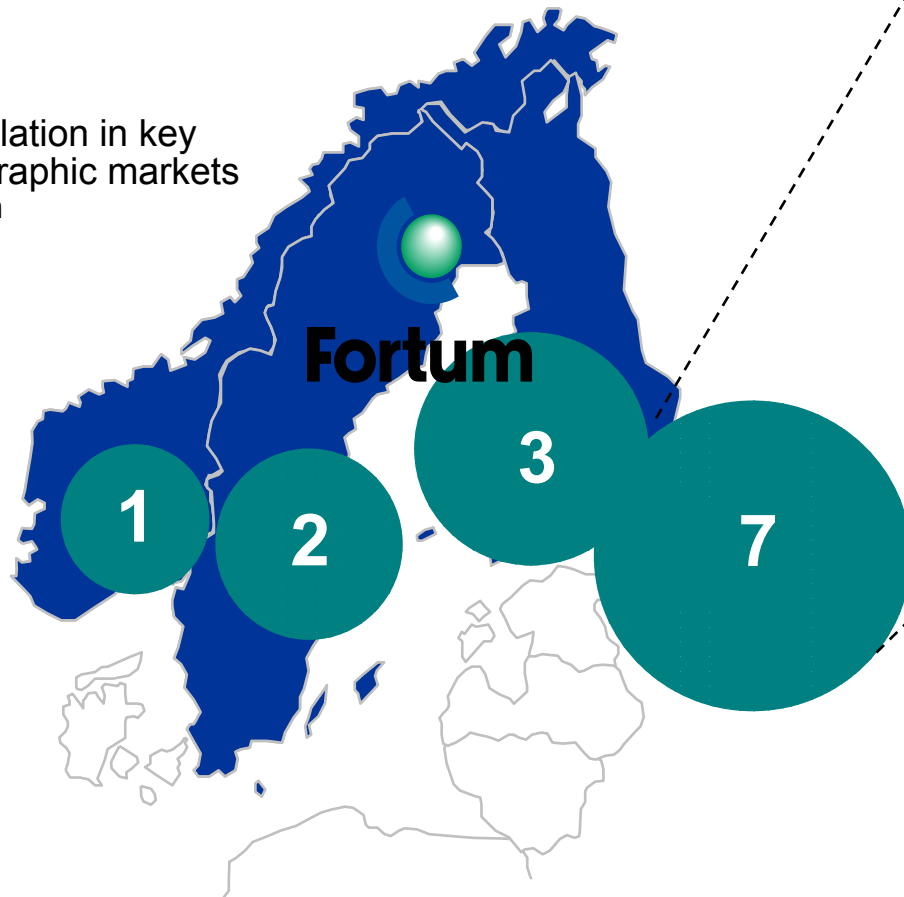
Traffic fuel sales
Lubricants sales
Operation & maintenance projects



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Lenenergo the Fortum power foothold in Russia

Population in key geographic markets
Million



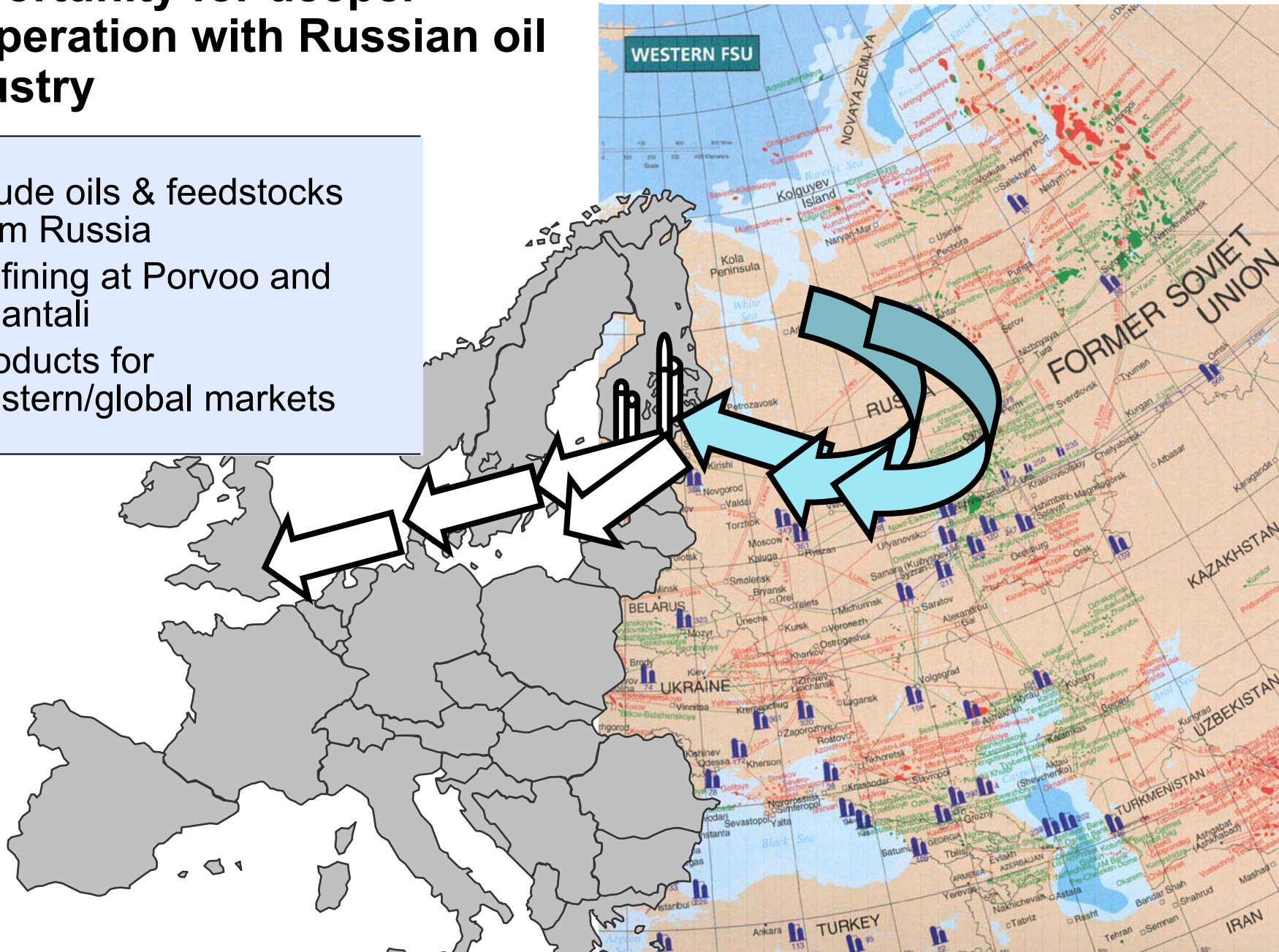
- **Lenenergo**
- Largest utility in North-West Russia - ranks 7th in total capacity among 73 regional companies
- Electricity production capacity ca. 3 200 MW (12,5 TWh)*
- Heat production about 29.5 TWh
- Electricity sales 23,5 TWh
- Electricity customers 1,3 million
- Net sales in 2002 654 MEUR **
- Fortum ownership 15,9 %

* excl. expired lease in December 2002 (2 100 MW, 4,2 TWh)

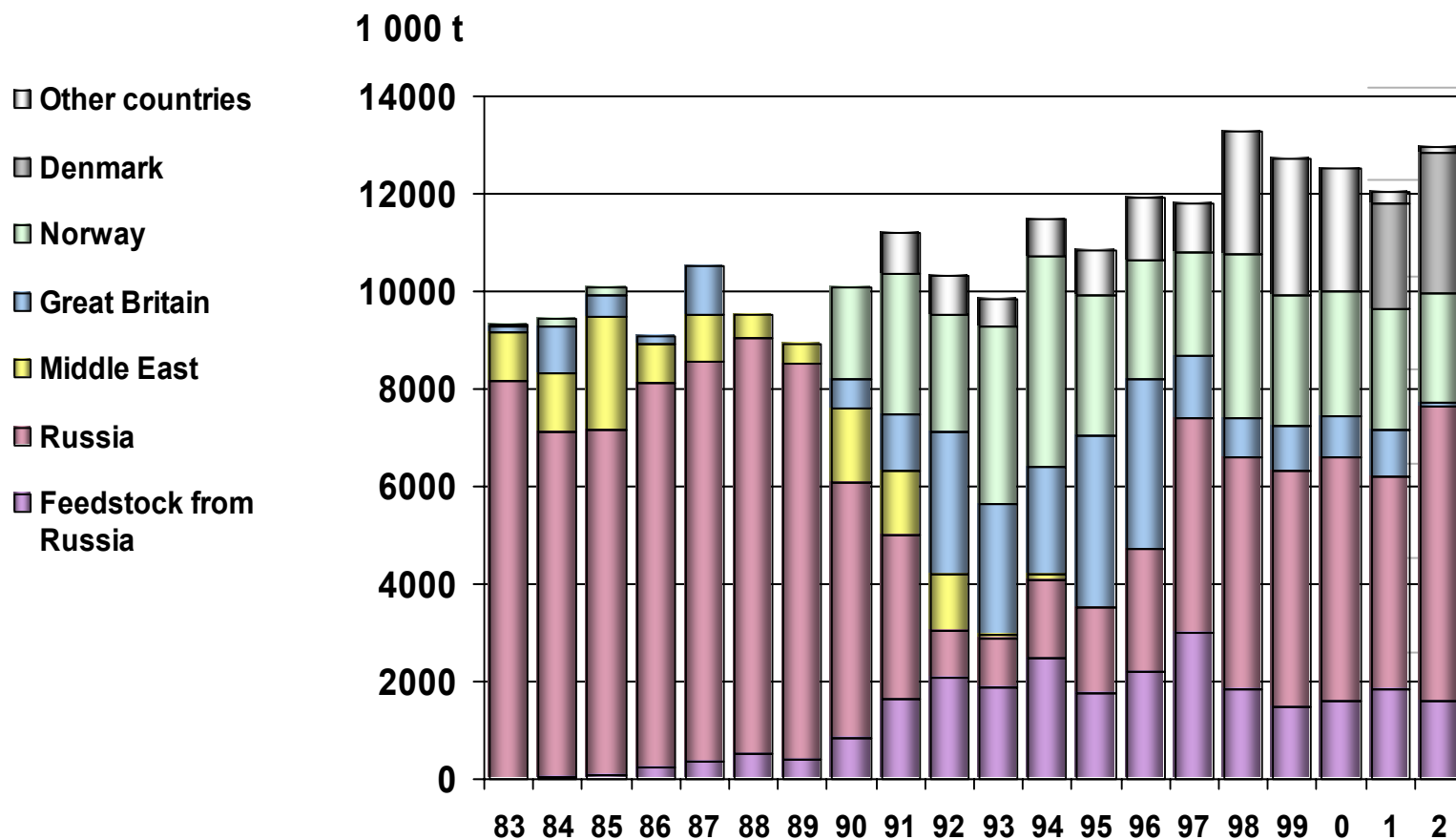
** EUR/RUB 34,4

Opportunity for deeper cooperation with Russian oil industry

- Crude oils & feedstocks from Russia
- Refining at Porvoo and Naantali
- Products for western/global markets



Crude oil and feedstock sourcing - Russian share increasing again



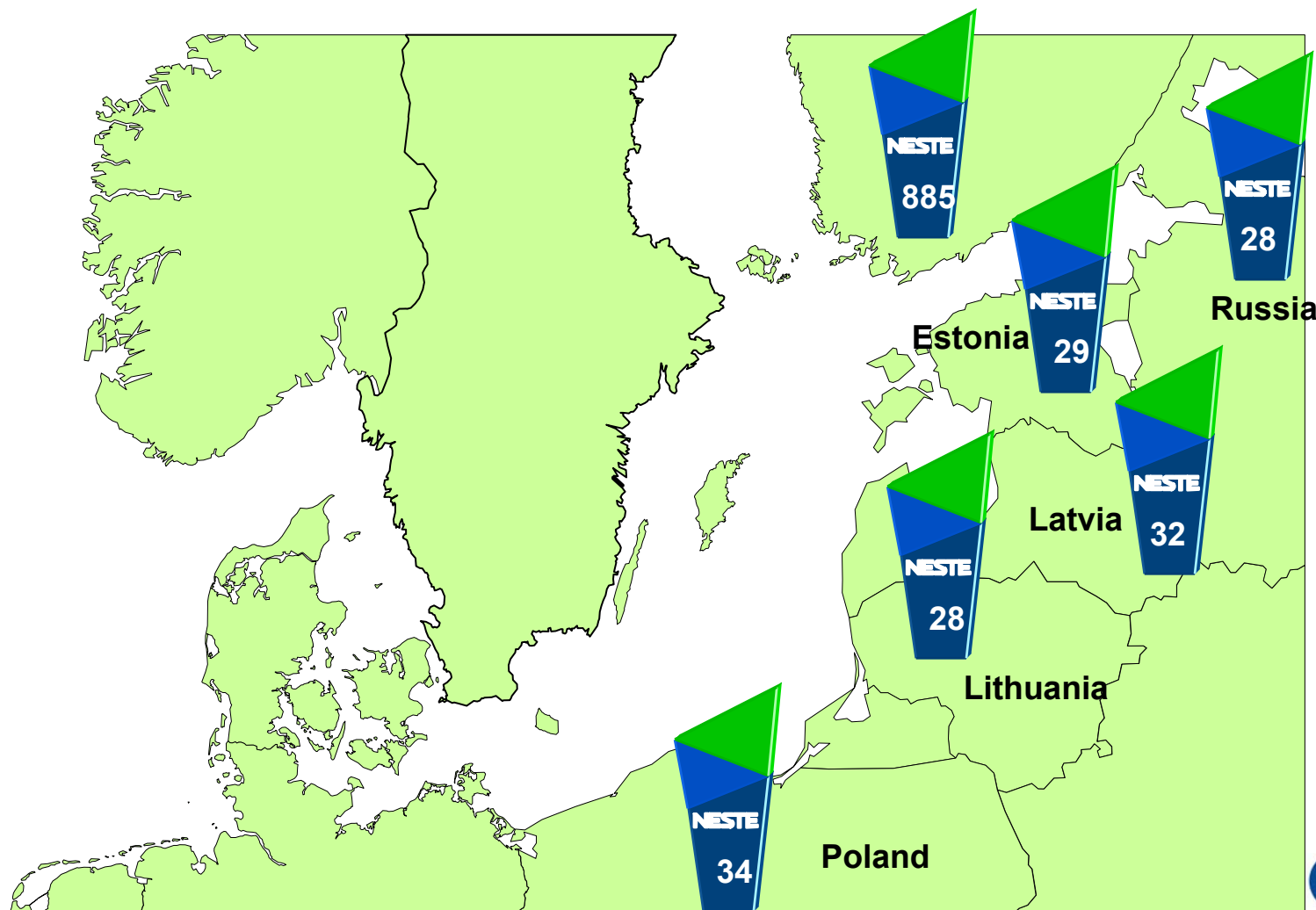
Oil production started in Russia

- JV with Lukoil
- start of production in 2003
- Fortum's share of full capacity 25,000 barrels per day
- Fortum's share of reserves about 82 million barrels



Oil Retail outlets

Total 1036 stations *)



*) Including D-stations and salespoints; in October 2003



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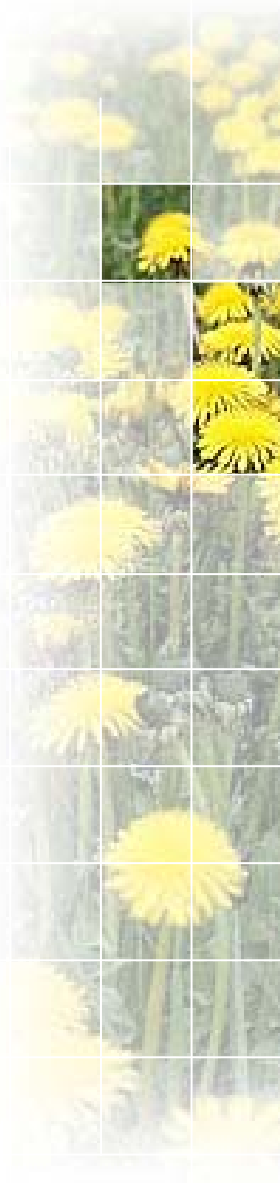
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Separating and listing of oil business

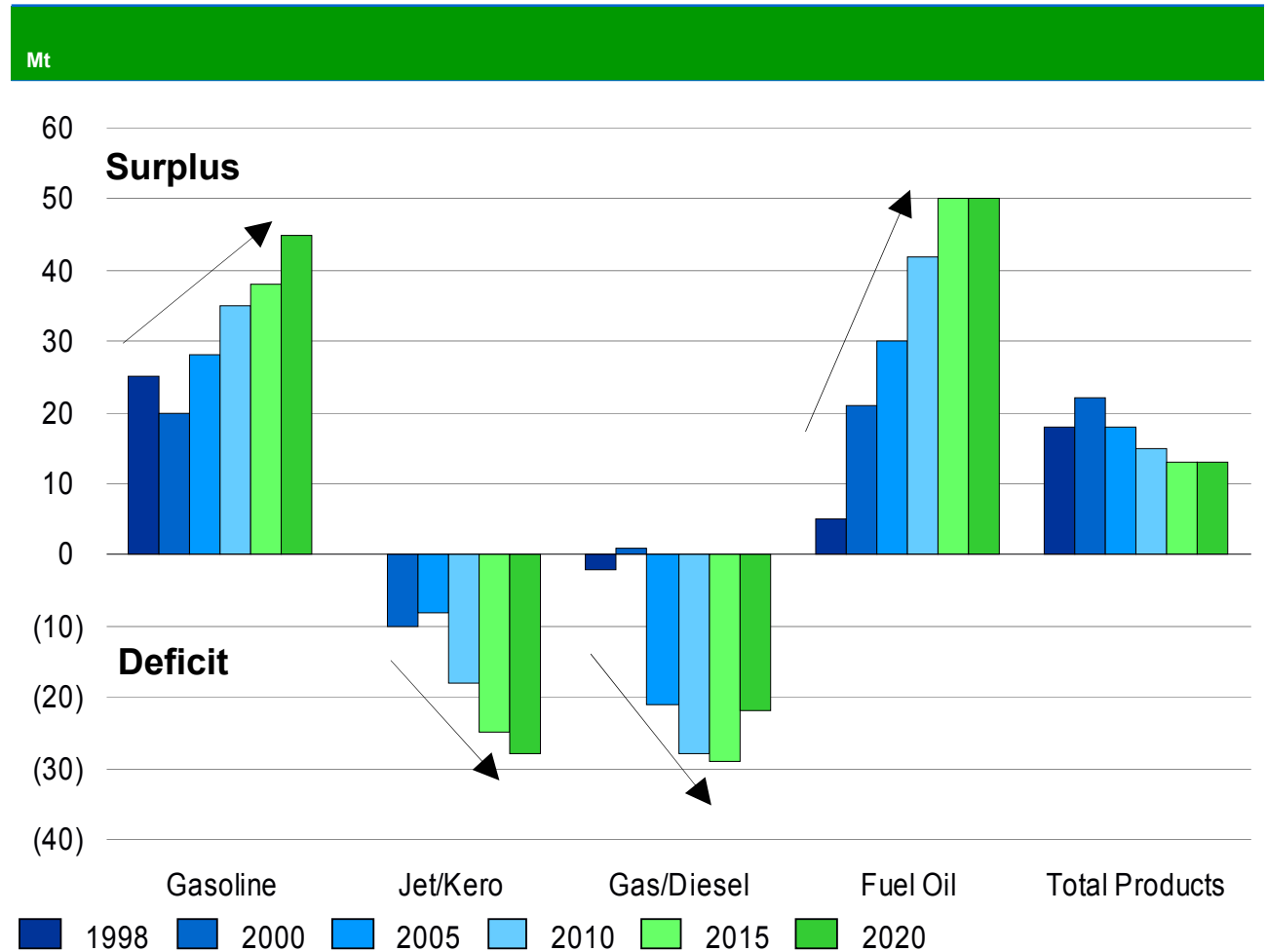
- Process initiated to list Fortum's oil business as a separate company on the Helsinki stock exchange
- Investment of EUR 0.5 billion to upgrade the Porvoo refinery
- The separation and listing will
 - Enable Fortum to further increase its focus on its Nordic utility strategy
 - Allow Fortum's oil business to take full advantage of attractive market developments
 - Facilitate the upgrade of the Porvoo refinery
- Ensure availability of sufficient resources to secure the strategic development of both businesses



Creating two focused and leading Nordic energy companies with strong competitive positions

European Product Balances

- A surplus of gasoline and fuel oil, and significant deficit of jet/kero and diesel in Europe are anticipated



Source Wood Mackenzie

The Porvoo upgrade takes advantage of well established market trends

- Demand for sulphur-free and higher margin diesel is rapidly growing in Europe
- Demand for low margin heavy fuel oil is in decline



The current deficit of diesel is anticipated to grow while surplus of heavy fuel oil is expected to increase

- North Sea crude production is in decline
- Production of less expensive Russian crude is increasing rapidly



Provides an attractive opportunity to further improve profitability by changing the product mix and crude intake without increasing production capacity

- Proven and tested technology
- Expected completion by the end of 2006
- Highly attractive investment opportunity – increase in refining margin premium at least USD 1/bbl

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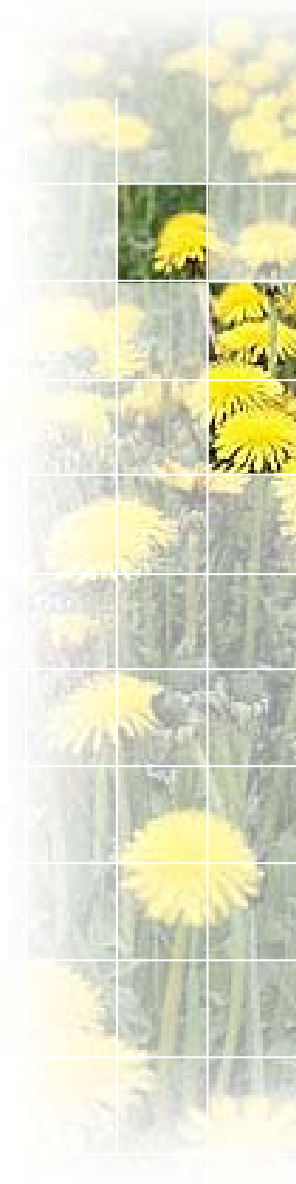
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Concluding remarks

on Russia

- Big potential, markets under development
- Uncertainties related to development of regulative and legal framework
- Core needs for investors: consistency, stability and transparency in development





Fortum

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