




# Fortum

## Separation of Fortum Oil through dividend distribution and sale of shares

*14 September 2004*

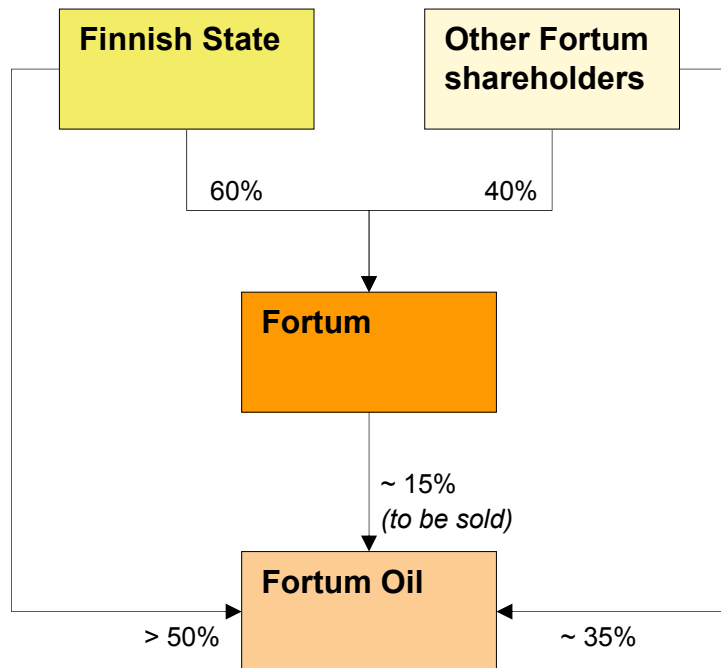


# Transaction Highlights

- As a result of strong operating performance in both Power & Heat and Oil, the separation of Fortum Oil is to be implemented through a combination of:
    - Distribution of ~ 85% of Fortum Oil shares as a dividend to the shareholders of Fortum Corporation
    - A sale of ~ 15% of Fortum Oil shares to investors through a marketed offering
- 
- Opportunity for Fortum shareholders to join the future of Fortum Oil and for specialized oil investors to buy Fortum Oil shares
  - Enables Fortum Oil to seek a listing of its shares
  - Dividend distribution and sale of the remaining shares planned for April 2005

# Transaction Structure Overview

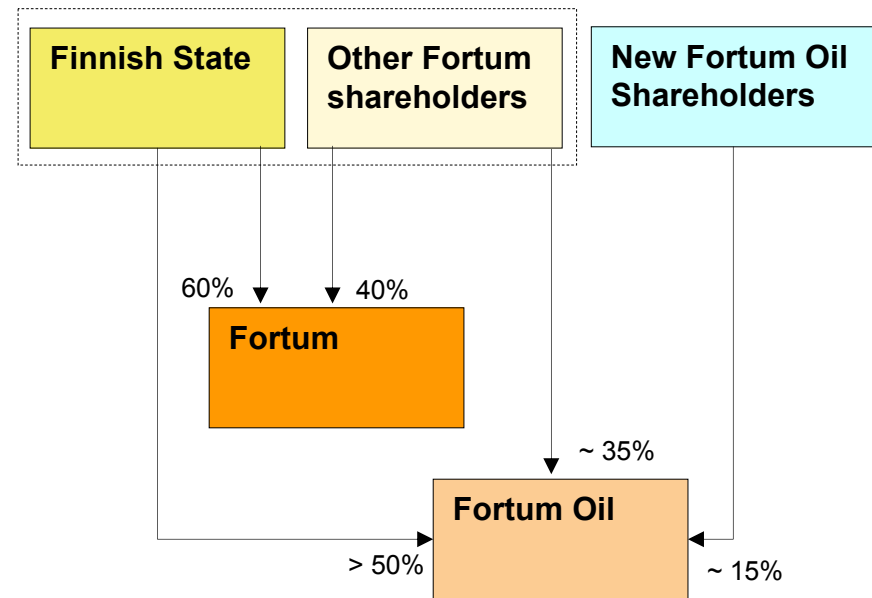
## Step 1: Dividend Distribution



- Fortum distributes ~ 85% of Fortum Oil's shares through a dividend to its shareholders
- Finnish State maintains a direct majority interest (>50%)
  - Finnish State receives Fortum Oil shares in proportion to its holding in Fortum (currently ~ 60%)

## Step 2: Sale of the Remaining Shares

*Fortum's current shareholders*

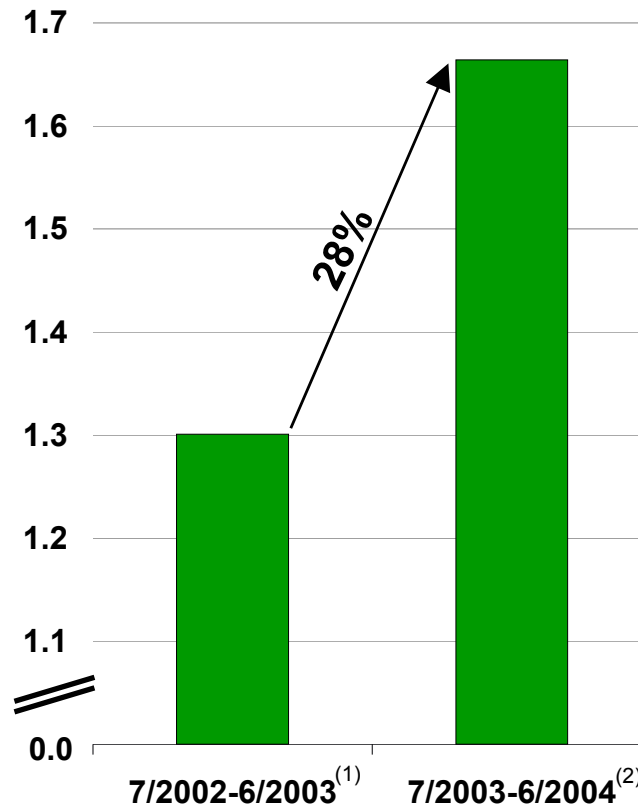


- Concurrently with the dividend distribution, Fortum sells the remaining ~ 15% of Fortum Oil shares to investors by a way of a marketed offering
  - Provides an opportunity for Fortum Oil to market itself to investors
  - Fortum receives proceeds to strengthen its balance sheet after deconsolidating Fortum Oil cash flows

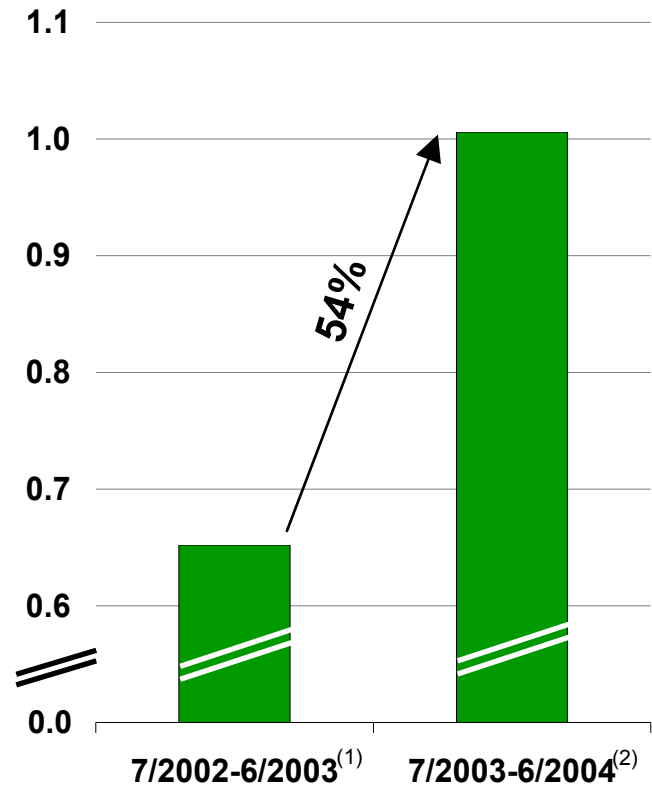
# Fortum's Profitability has Significantly Improved During the Last 12 Months...

- Both the Power & Heat and the Oil businesses have significantly improved their performance

Fortum Group EBIT (EUR billion)



Fortum Group Net Income (EUR billion)

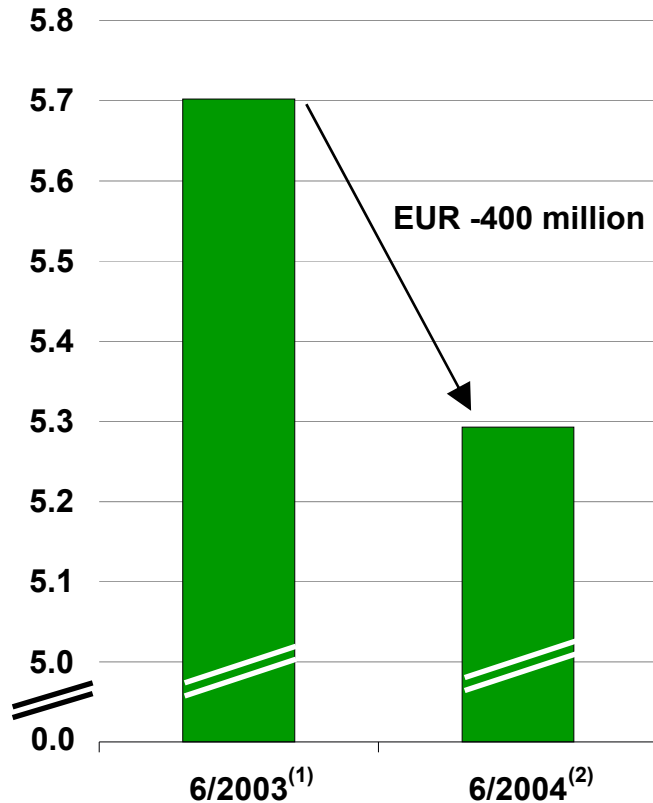


**Notes**

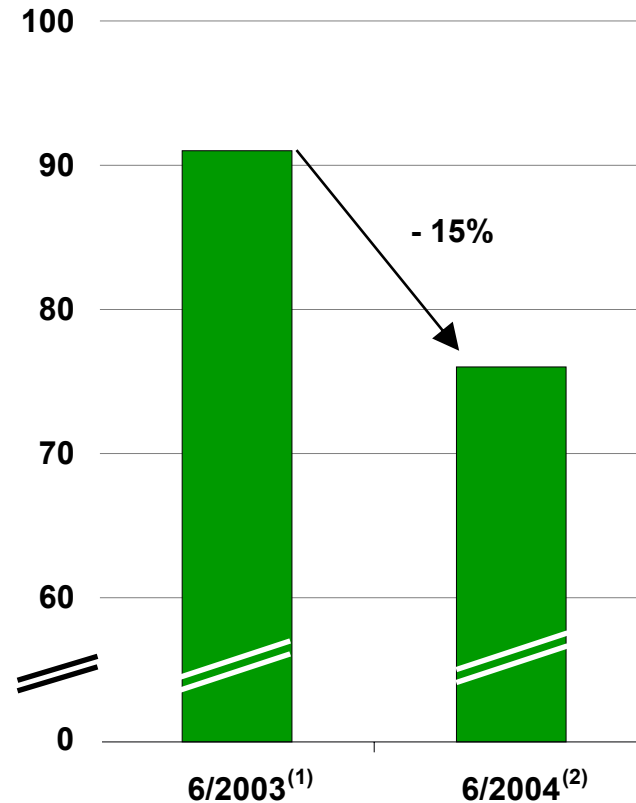
1. Last 12 months as of June 30, 2003
2. Last 12 months as of June 30, 2004

# ... Resulting in Strengthened Balance Sheet

Net Debt (EUR billion)



Gearing (%)



**Notes**

1. As of June 30, 2003. EUR 1.2 billion in preference shares included in net debt
2. As of June 30, 2004

# The Optimal Structure

- Detailed review of separation alternatives conducted
- Dividend distribution of Fortum Oil shares enables full separation of the two companies
- Clarifies ownership and corporate structure:
  - Establishes Fortum as a “pure play” Nordic power & heat company
  - Provides complete clarity with regards to Fortum Oil’s ownership structure given Finnish State direct majority ownership

# The Right Timing

- The most cost efficient transaction structure:
  - Dividend distribution in 2005 minimizes total transaction costs
  - Fortum could have faced substantial negative tax consequences due to insufficient tax surpluses if the dividend distribution was to be made in 2004
- Provides high transaction certainty with limited dependence on market conditions

# The Best Outcome for Fortum...

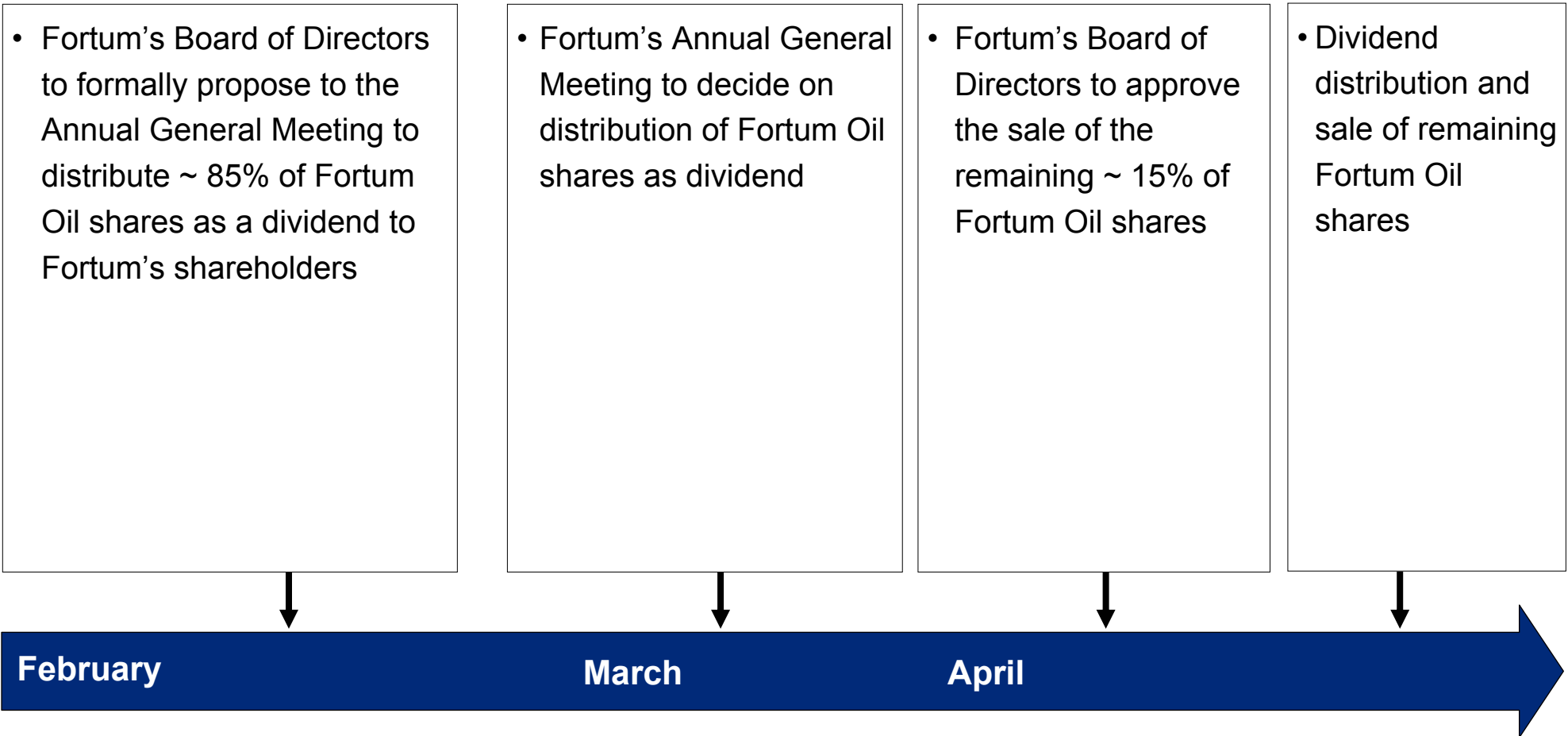
- Dividend distribution will leave Fortum with ample financial strength to implement its utility consolidation strategy:
  - Fortum has had strong operating performance over the past 12 months and the near term outlook remains positive
  - Uncompleted acquisition of Hafslund has left Fortum with a stronger balance sheet than expected
  - Sale of Fortum Oil shares provides proceeds to Fortum



## ... and for Fortum Oil

- Fortum Oil to have a strong platform to implement its strategy
  - Sufficient capitalisation to fund strategy, including the upgrade of Porvoo refinery
  - Approximately EUR 1 billion of net debt (including EUR 130 million of shipping leases) will be transferred to Fortum Oil

# Planned Timetable



# Key Conclusions

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- Creation of two truly independent companies, both leaders in their own industries, with focused strategies and financial strength to implement them
- The most cost-efficient alternative for all constituents
- Provides high transaction certainty with limited dependence on market conditions

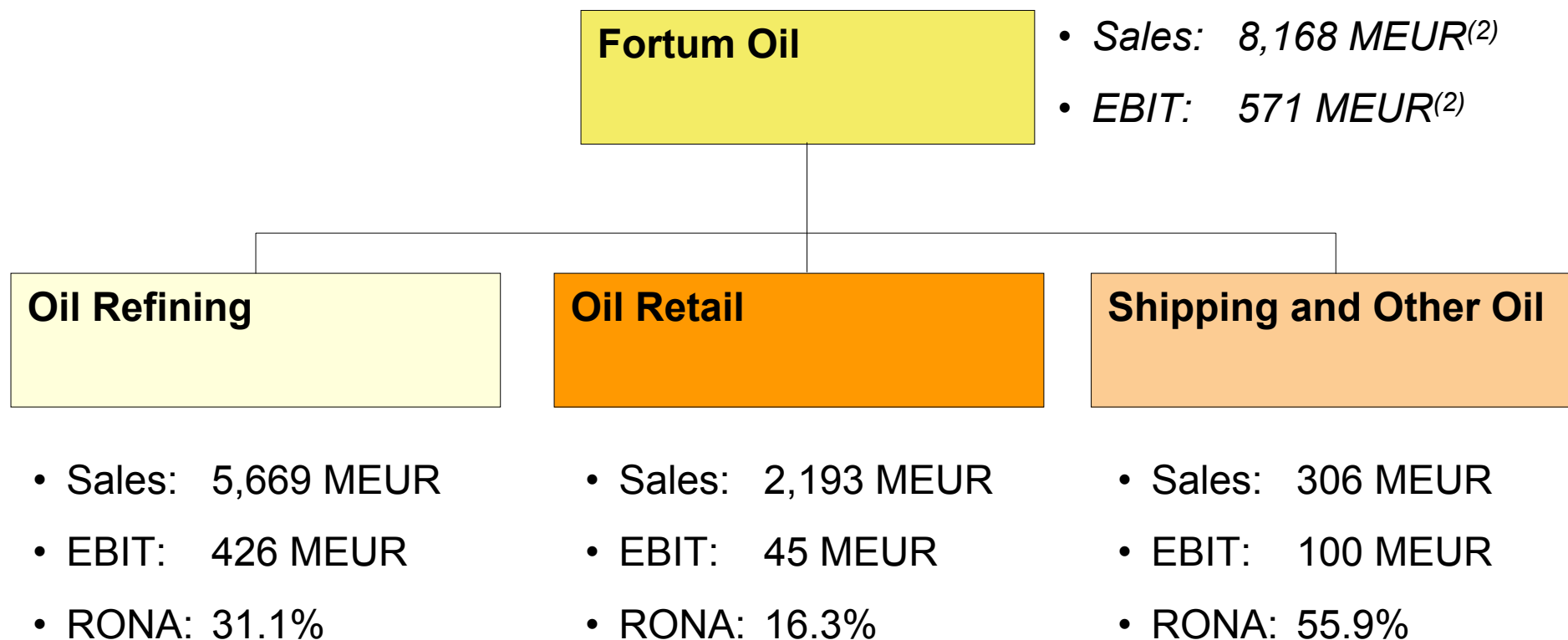


**The best transaction structure for all constituents**

# Overview of Fortum Oil<sup>(1)</sup>

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Financials LTM as of June 30, 2004



## Notes

1. Based on Fortum Oil segmental reporting. Non-recurring items deducted from operating profit

2. Represents the sum of Oil Refining, Oil Retail, Shipping and Other Oil reporting segments. Does not represent Fortum Oil pro forma financials

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