

# Balance sheet strength enables growth and value creation

Capital Markets Day

5 November 2014

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# Agenda

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- January-September results
- Efficiency programme
  - Fixed costs
- Market outlook
- Financial targets
- Cash flow - Net debt
- Summary

# Summary of January-September 2014

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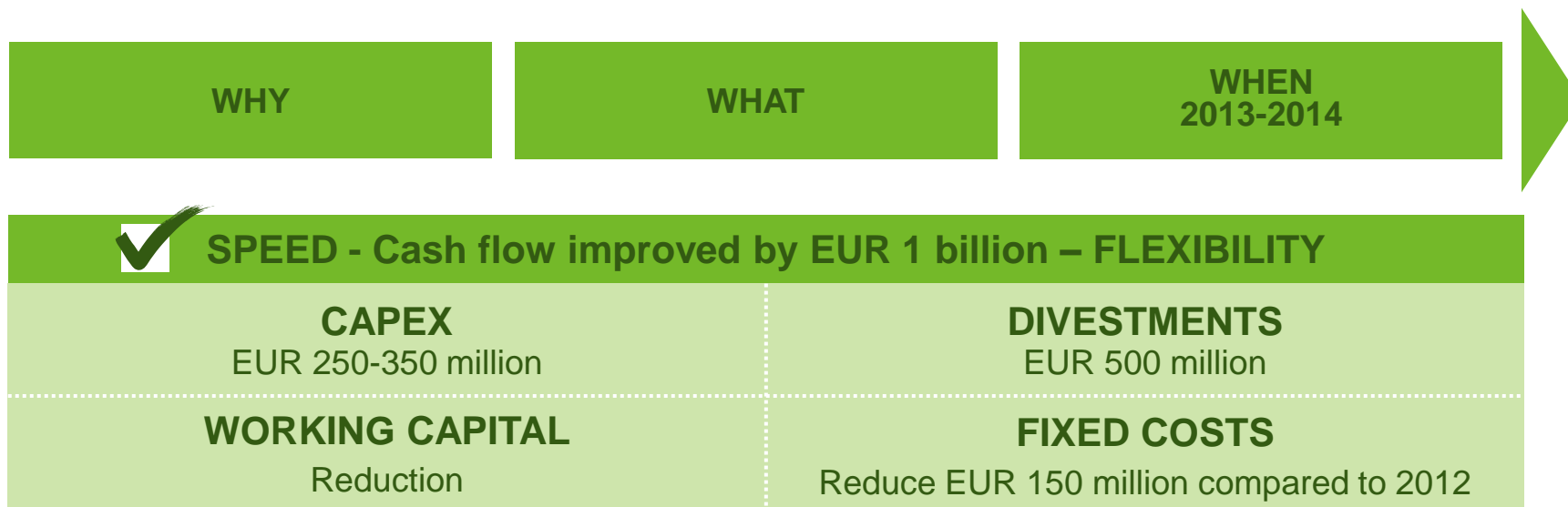
- Good results in continuously demanding market environment
- Flexible hydro production partly offset weak electricity price
- Strong cash flow from operations
- Finnish and Norwegian electricity distribution business sales completed. The evaluating and planning of the possible future divestment of the Swedish electricity distribution business continued
- The target for the Russia segment in Russian roubles (RUB 18.2 billion) to be reached during 2015 is intact, but the euro result level will be volatile
- Finnish Government decided not to introduce the power plant tax (so called windfall tax)
- Efficiency programme close to completion – successfully finalised

# January-September 2014 Results

Key figures (EUR)	III/14	III/13	I-III/14	I-III/13	2013	LTM
Sales, million	976	1,060	3,466	3,918	5,309	4,857
Comparable EBITDA, million	309	336	1,317	1,429	1,975	1,863
Operating profit, million	149	96	2,778	1,002	1,508	3,284
Comparable operating profit, million	183	167	915	979	1,403	1,339
Profit before taxes, million	95	27	2,721	904	1,398	3,215
Earnings per share	0.10	0.04	2.91	0.84	1.36	3.42
<i>Items affecting comparability</i>	<i>-0.03</i>	<i>-0.05</i>	<i>2.11</i>	<i>0.03</i>	<i>0.10</i>	<i>2.19</i>
Net cash from operating activities, million	288	401	1,310	1,150	1,548	1,708
Cash flow before financing activities, million	259	152	3,987	653	604	3,938

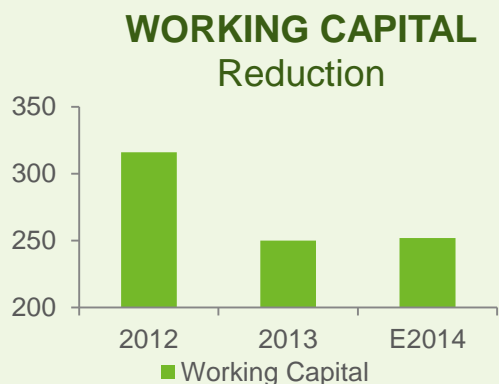
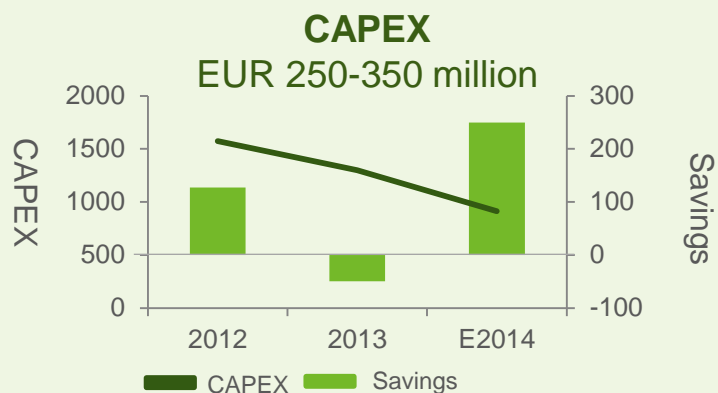
# Fortum's efficiency programme 2013-2014

- The efficiency programme will be finalised during Q4 – focus will stay
  - Total annual cost savings visible in all divisions
  - Improved working capital efficiency
  - Divestments of non-core assets totalling more than EUR 500 million



# Efficiency programme reductions starting from Q3 2012

## SPEED - Cash flow improved by EUR 1 billion – FLEXIBILITY



NOTE! Working capital excluding Distribution, derivatives related receivables and liabilities and unpaid investments

NOTE! Fixed cost development excluding Distribution, Heat Norway, property tax increase and Caruna charges

NOTE! LTM (last twelve months) used for 2014 in investments and fixed costs.

# Tax environment; predictability – how to meet future challenges

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- **Take total taxes into consideration early**
  - When making investment analysis, orders, agreements
  - When restructuring operations
- **Synchronise legal decision making with operative decision making**
  - Tax authorities formalistic & regard governance & operative document to be tax based.
- **Compliance**
  - Compliance can be expensive, however, non-compliance is expensive x 10
  - Documentation
- **Tax audit readiness**
- **Communication**
  - External communication => public and tax authorities

High attention



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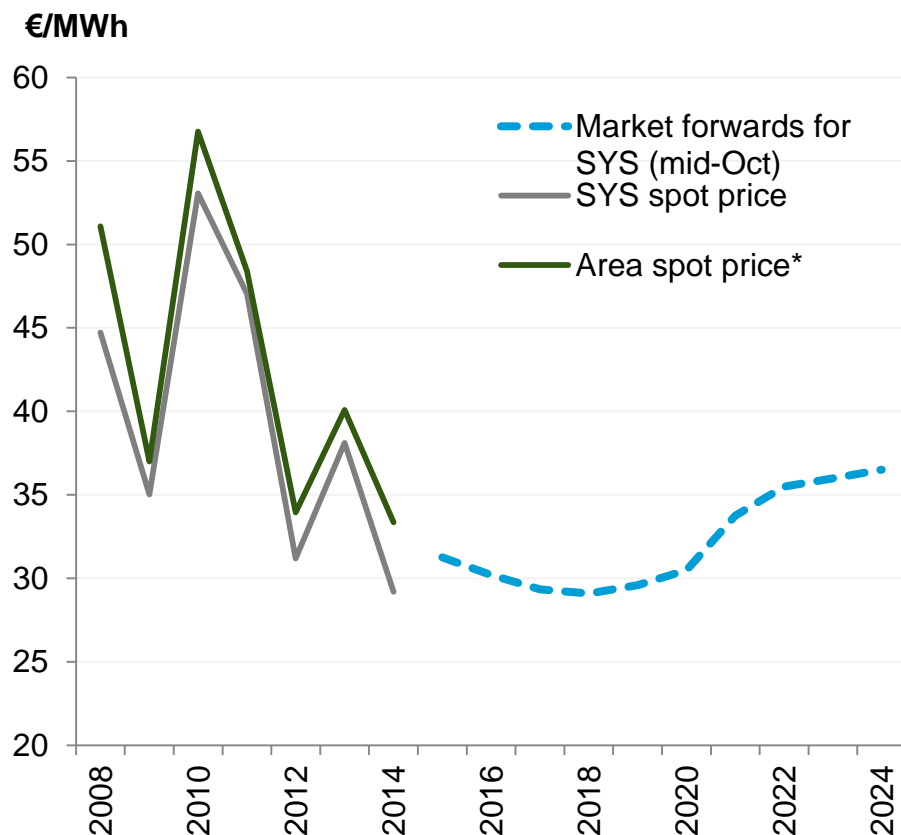


Low attention

# Market outlook remains flat

## The power market opportunity shifts from volume to price volatility

### Nord Pool electricity price



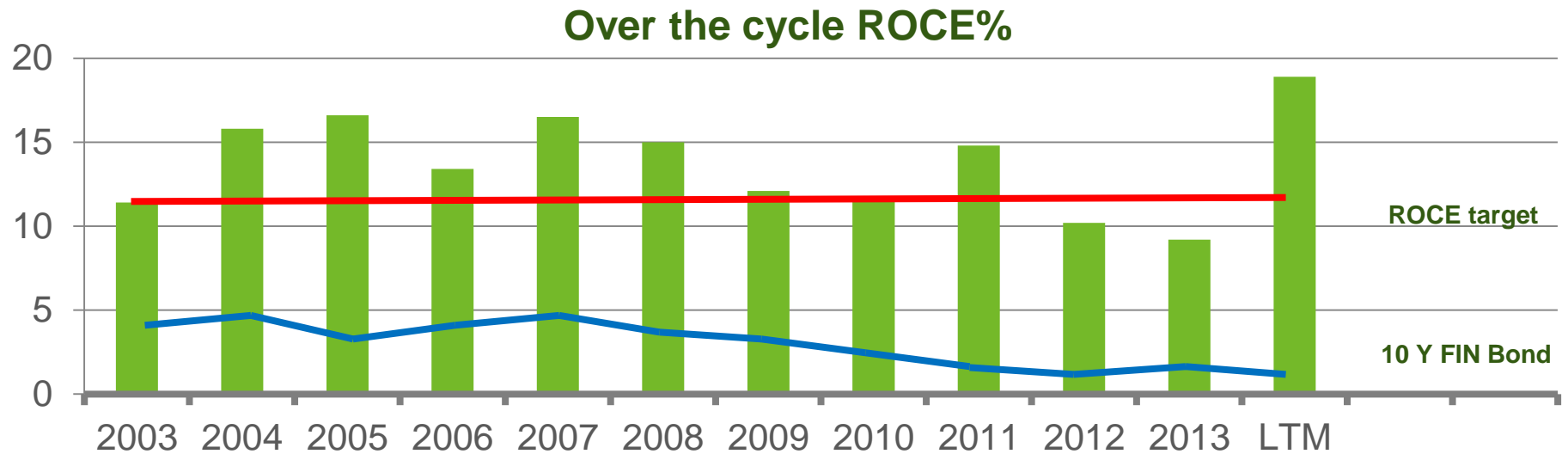
- Electricity price scenario in the Nordics is flattish
  - Moderate *demand growth on average*
  - Renewable supply continues to grow
  - Slow appreciation of the carbon and fuel prices
- ...but intraday price volatility expected to increase driven by RES

\* Average spot price = Average price of area spot prices SE2 20%, SE3 40% and HEL 40% (Fortum's production fleet in average year)

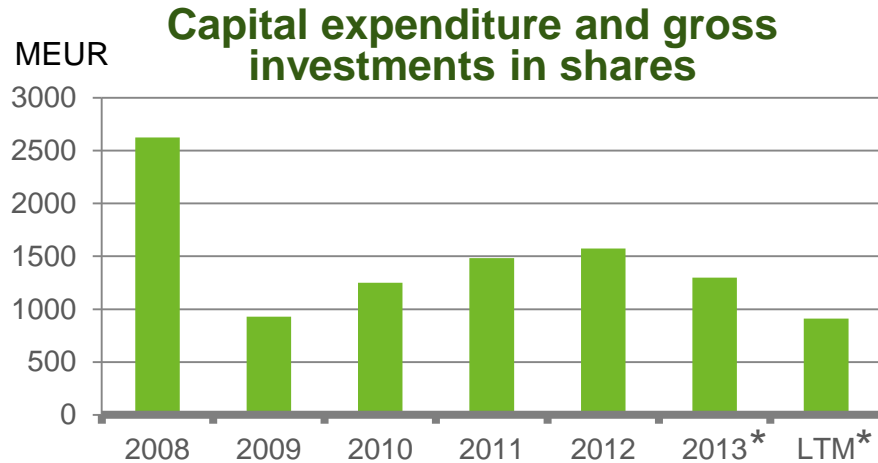


# Financial targets

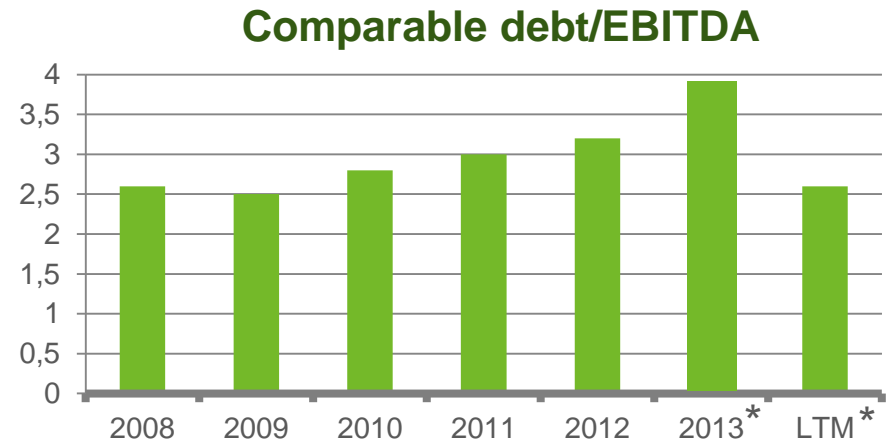
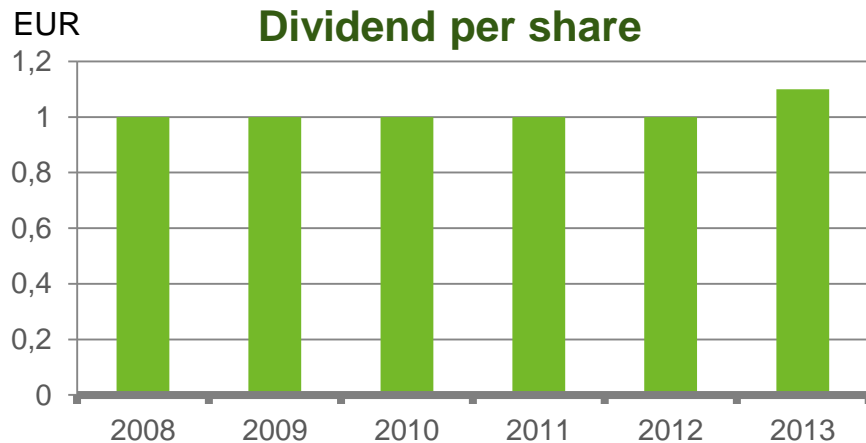
	LTM	2013	Target
Return on capital employed, ROCE (%)	18.9	9.0	12
Return on shareholders' equity, ROE (%)	29.0	12.0	14
Comparable net debt/EBITDA	2.6	3.9	~3
- excluding Värme	2.2	3.4	



# Fortum has invested heavily, keeping capital structure and dividends at a good level

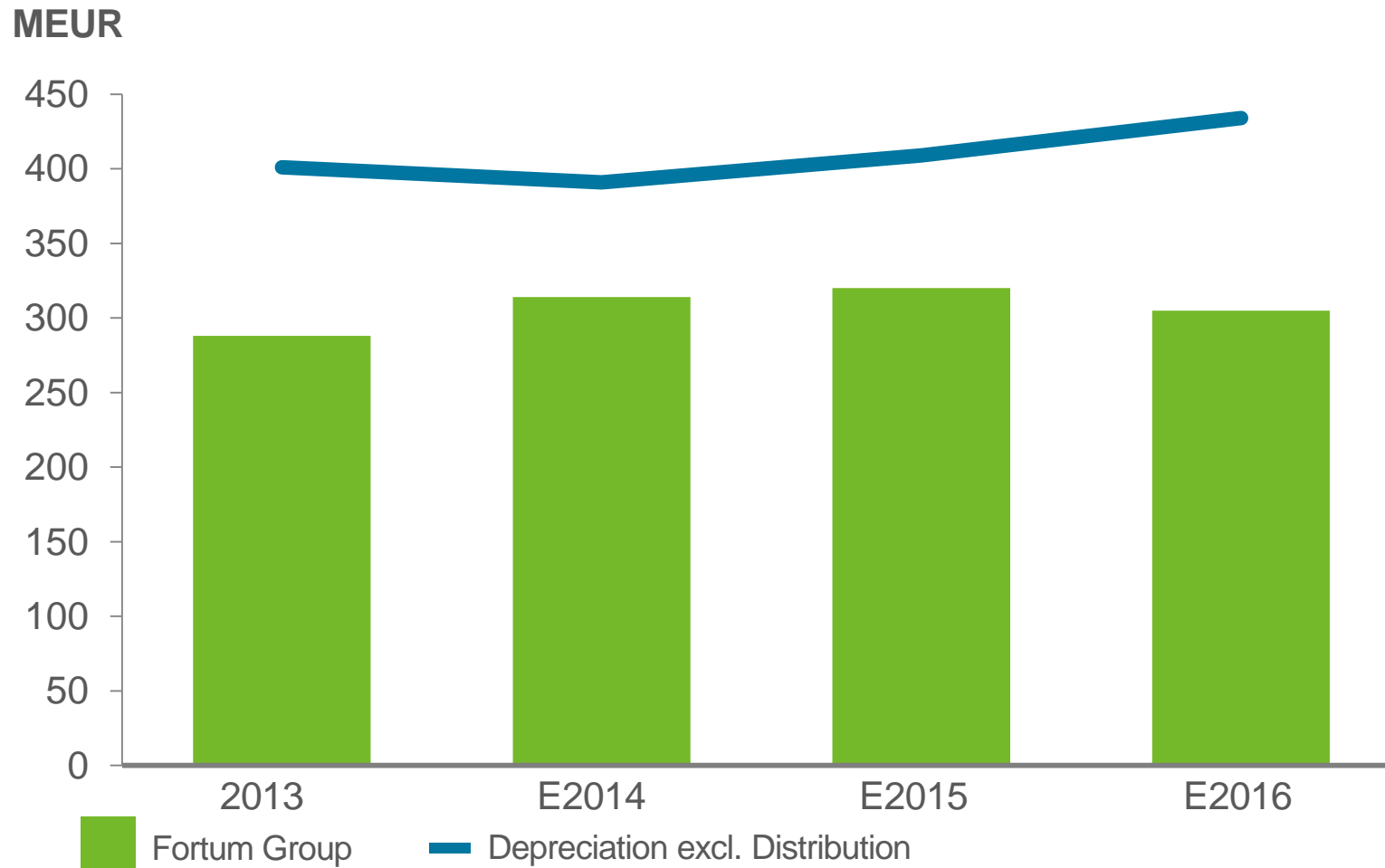


- By investing we maintain the current assets and create growth for future
- Strong balance sheet and capital structure stronger than target
- Healthy dividends - capital structure target and dividend policy intact



\* Restated

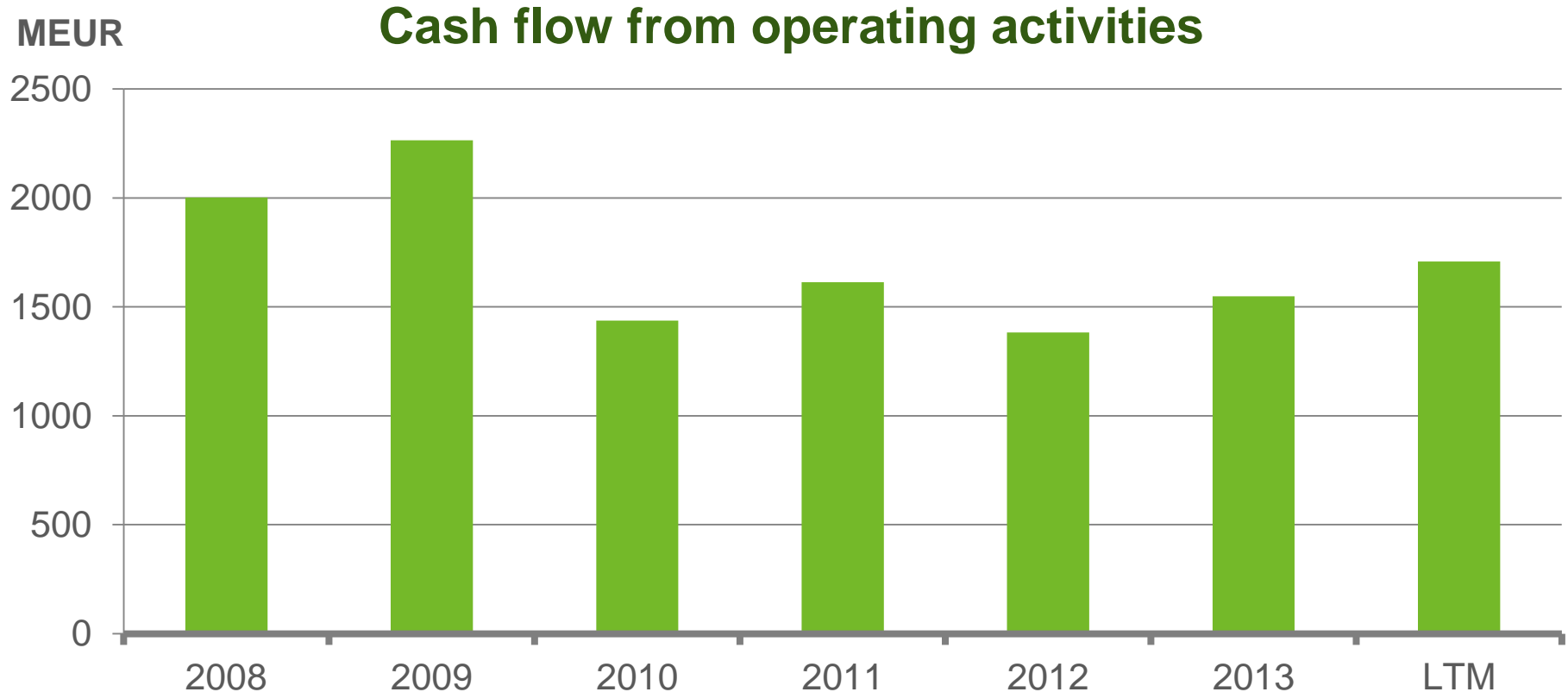
# Fortum's maintenance investments (excluding Distribution) clearly below depreciation with current portfolio



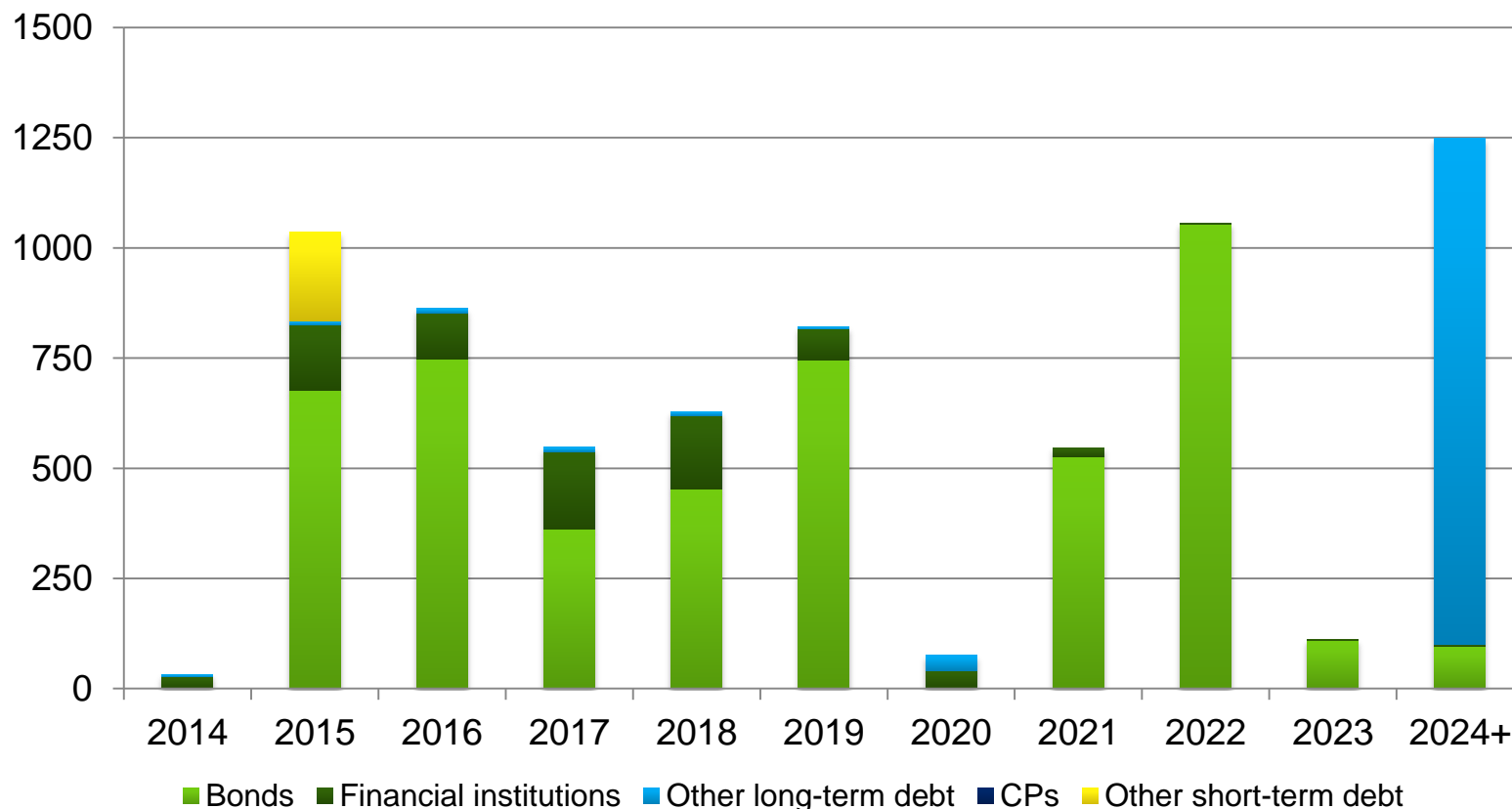
Note: Excluding Distribution

# Cash flow increasing post the efficiency programme

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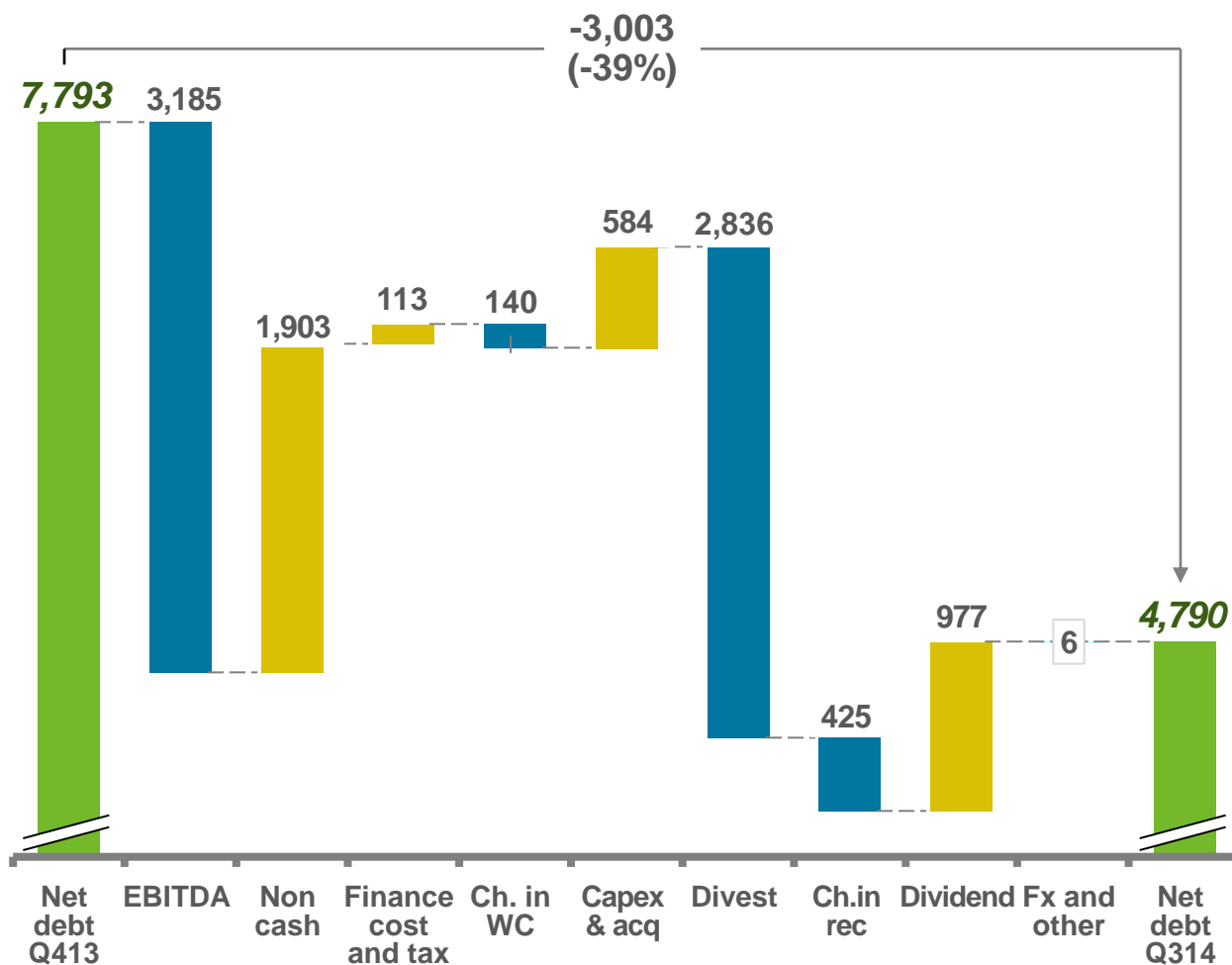
# Diversified funding base – net debt EUR 4.8 billion at the end of September 2014



	MEUR
2014	32
2015	1,035
2016	863
2017	548
2018	629
2019	821
2020	76
2021	547
2022	1,057
2023	112
2024+	1,249
<b>TOTAL</b>	<b>6,969</b>

	per 30 Sep, 2014	per 31 Dec, 2013
<b>Average interest rate (incl. swaps and forwards)</b>	<b>3.9%</b>	<b>3.6%</b>
<b>Portion of floating / fixed debt</b>	<b>47 / 53%</b>	<b>51 / 49%</b>

# Change in net debt during Q1- Q3 2014



## In Q1-Q3 2014

- Generated cash from operations EUR 1.3 billion (bn)
- Invested with EUR 0.6 bn
- Divested with EUR 2.8 bn
- Received from Värme EUR 467 million from interest-bearing receivables
- Paid dividends approx. EUR 1 bn
- Paid back loans with EUR 2.1 bn
- Increased cash with EUR 0.9 bn

# Access to liquidity

- Fortum has a strong financial position
- Good liquidity – committed credit lines total EUR 2.2 billion
- Good interest in Fortum among investors

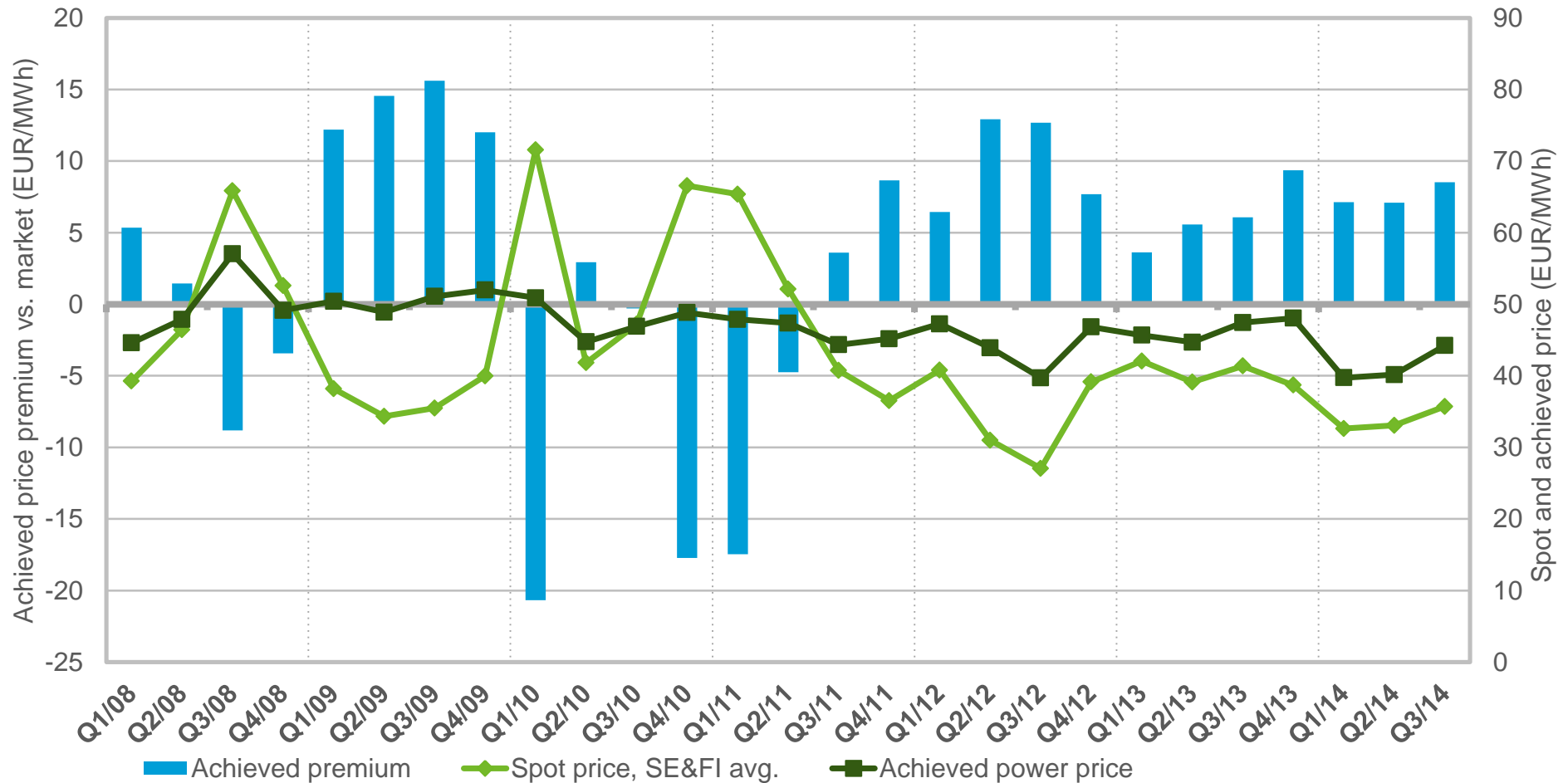
LIQUID FUNDS AND COMMITTED CREDIT LINES	Available	Outstanding	Total amount
<b>Committed Credit Lines</b>			
Short Term 1)	217	0	217
Long Term 2)	2,000	0	2,000
<b>Total</b>	<b>2,217</b>	<b>0</b>	<b>2,217</b>
<b>Liquid Funds</b>			
Total	2,178		
<i>of which in Russia</i>	259		
<b>Total Available Cash and Committed Financing</b>	<b>4,395</b>		

1) Valid until further notice

2) Maturity dates,;EUR 2 billion until July 2016 , EUR 1.9 billion July, 2017

# Fortum achieved price premium driven by right type of capacity and actions

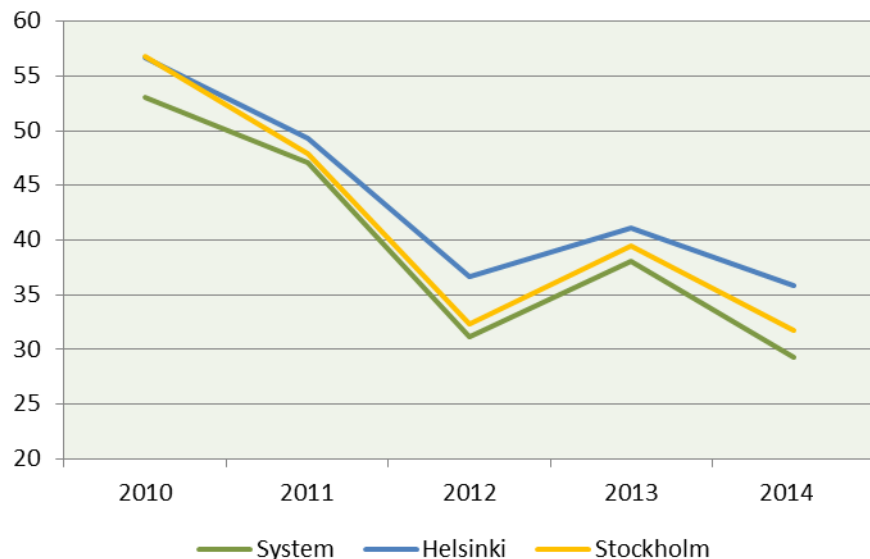
We utilise our competences and flexibility in all markets – from intra-day to financial markets



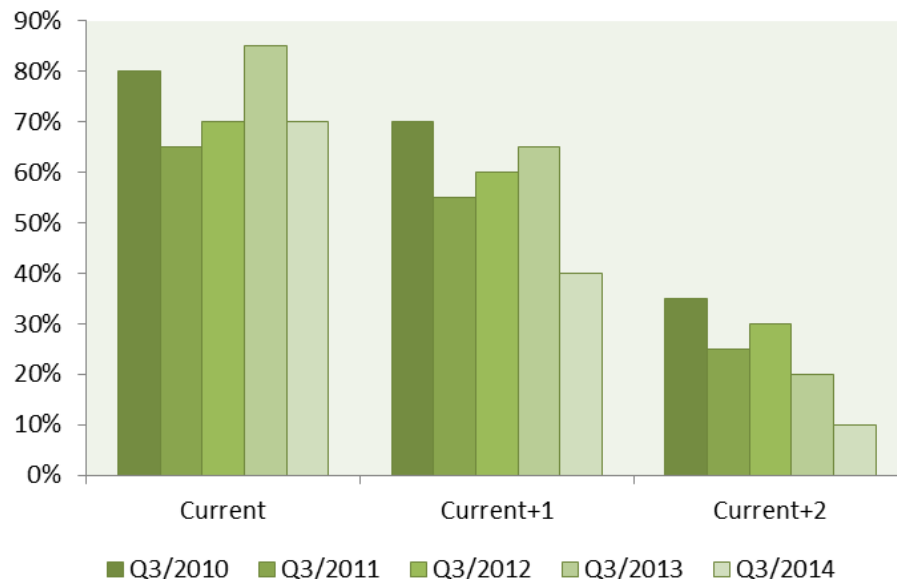


# Annual average electricity prices and hedging levels at the end of September 2014

## Annual average electricity price



## Hedging level in the end of Q3



## Hedging policy targets

- Decrease volatility in company comparable operating profit
- Secure EBITDA to meet company's financial obligations
- Hedging should in average contribute positively

Interim report	Current year			Current year+1			Current year+2		
	HR	price	year	HR	price	year	HR	price	year
<b>Q3 2010</b>	80%	45	2010	70%	44	2011	35%	43	2012
<b>Q3 2011</b>	65%	47	2011	55%	47	2012	25%	46	2013
<b>Q3 2012</b>	70%	48	2012	60%	45	2013	30%	43	2014
<b>Q3 2013</b>	85%	44	2013	65%	42	2014	20%	41	2015
<b>Q3 2014</b>	70%	43	2014	40%	41	2015	10%	39	2016

# Efficiency, cash flow and investments in focus

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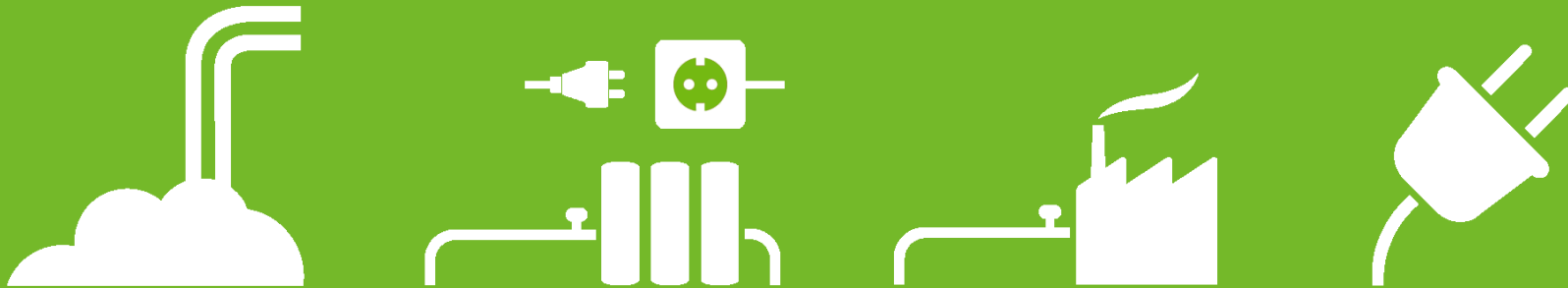
- Focus on current portfolio
  - Flexibility - Profitability - Scrutinize investments in current portfolio
  - Cost control
  - Continuous efficiency improvements
  - Working capital optimisation
  - Further divestments of non-core assets or ones with limited potential
  - Hedges
- Growth investments
  - Profitable projects with fast pay-back in focus
  - Successful divestments create platform to execute growth

Business builds on current portfolio – in addition, we will select the most profitable new investments to support our financial targets and deliver excellent value to our shareholders

# Summary

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- Efficiency programme has been finalised and the work continues...
  - Cost control
  - Efficiency - Working capital optimisation
  - Cash flow
  - Investments – both current and growth
  - Hedging to capture the increasing volatility
  
- Strong balance sheet and operational cash flow
  - Strength in demanding environment
  - Ready for the future



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