



CEO's letter

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General

A strategy targeting growth and continuous profitability

Dear stakeholders,

The energy sector operating environment in 2015 was demanding. Electricity wholesale prices continued to decrease, mainly driven by extreme hydro conditions and low commodity prices, but also by the subsidised wind and solar energy production. Overall, the Nordic electricity spot prices are nearly 50% lower than in 2013. At the same time, the increasing burden from taxes not linked to profit, such as real-estate taxes, and the increasingly strict new compliance requirements put a strain on the competitiveness of energy companies and their willingness to invest.

For us at Fortum, it became increasingly evident that we must find new revenue streams to complement our current operations.

Market transition impacted our results

In 2015, we concluded the divestment of our electricity distribution business and booked a sales gain of approximately EUR 4.3 billion, corresponding to EUR 4.82 per share, from the divestment of the Swedish grid business. Our results were negatively affected by some EUR 900 million from the decision on the early closure of Oskarshamn nuclear units 1 and 2 in Sweden and from the impairments and provisions related to our old thermal power capacity in Finland. Both of these issues further demonstrate the pace of market transition in the Nordic countries.

Fortum's comparable operating profit for continuing operations was EUR 808 million, down 26% from the previous year. We are not be satisfied with this. Our cash flow from operating activities was strong at over EUR 1.2 billion. Our balance sheet is also strong.

Results in Russia improved

Our Power and Technology segment was most heavily affected by the depressed electricity prices, the unusually high hydro levels and the increasing taxes. Our Heat, Electricity Sales and Solutions segment showed a slight improvement in results.

The results of our Russia segment improved clearly, by 25%, despite the weak rouble and general economic uncertainty. Our investment programme in Russia is nearly completed, and we expect to commission the last new CHP unit in early 2016. Our target is to reach a RUB 18.2 billion operating profit level in the Russia segment in 2017-2018.

New revenue streams

The market outlook in our home markets is bleak. The forward prices currently indicate that electricity prices will remain low in the near future. Therefore, we have refocused our strategy to find new revenue streams that are not dependent on the Nordic wholesale power prices. The strategy was published at the beginning of February 2016.

One of our strategic goals is to grow in solar and wind power. It is estimated that in the next five years 80% of the new investments globally in electricity production will be in solar and wind, and we will be participating in this growth. Now that solar and wind technologies are maturing and their subsidy schemes are being gradually phased out, there is a growing need for utility competencies, such as operating on the market and in the electricity system.

We are also developing clean energy solutions, such as waste-to-energy in district heating and Charge & Drive solutions for e-mobility, for growing cities. Embracing the potential of new technologies – above all, digitalisation – enables new customer solutions, which is another source of new business.

Strategy anchored in global megatrends

Despite the current uncertainties in the world economy, megatrends create interesting opportunities for us.

Climate change is one of today's most urgent problems. For years, we have been determined to decarbonise our energy production; today, already 97% of our electricity production in Europe and 64% in all production countries is CO₂ free. In addition to the growth in solar and wind power, we look for ways to strengthen our hydropower fleet. The increasing share of intermittent renewable energy sources brings volatility to the energy system, which can be balanced by the flexible storage capabilities of the CO₂-free hydropower.

Scarcity of resources is another major global issue and one of the reasons why we are continuously improving the efficiency of our energy production. Our current target is to achieve annual energy savings of more than 1,400 GWh by 2020 compared to 2012. This savings would equal the annual heating demand of more than 75,000 households. By the end of 2015, about 1,240 GWh of this target had been achieved.

We are already a part of the circular economy, which is closely linked to another megatrend: **urbanisation**. Growing cities and urban areas are facing increasing problems related to pollution and waste as well as inefficient production and use of heat, cooling and electricity. Our goal is to develop efficient solutions to better utilise local energy sources, such as waste and biomass. We also want to encourage our customers to manage their energy consumption by offering demand-response solutions, open district heating and new smart services for homes and businesses.

Digitalisation enables totally new opportunities to develop solutions and services for selling, delivering and using energy. It can also help to handle the volatility of the energy system and enable better local and grid-scale storage systems. As we want to be in the forefront of technology and application development in the energy sector, we will build new energy ventures.

Building on our strengths and competences

We are building our new direction on the expertise, competencies and strengths in our current businesses. At the same time, we must continuously improve the productivity and competitiveness of our current fleet. We have, therefore, decided to lower our fixed cost base as a continuation to the savings in 2013-2014. In 2016 we will focus on identifying and implementing the actions to achieve a EUR 100 million cost-cutting target with visible results by the end of 2017. We have many opportunities in, for example, procurement, operational efficiency and digitalisation.

We aim also to drive utility industry consolidation and restructuring in order to create shareholder value. Thanks to our strong balance sheet, we are in a very good financial position to move quickly when attractive opportunities arise.

Sustainability at the core of the strategy

Sustainability continues to be at the core of our strategy – and safety our number one priority. During 2015 we made good progress in all areas of corporate responsibility, with the exception of our target to reduce the number of serious accidents by 50%. All serious accidents are unacceptable, and we will continue our dedicated actions to reach our long-term target of zero accidents. We will focus on building a more robust safety culture, and we will also invest in personnel wellbeing.

Our clean energy strategy is well aligned with the principles of the UN Global Compact and Caring for Climate initiatives. We are committed to continuing our work towards clean and sustainable energy production and creating solutions for sustainable cities.

Commitment to creating value

Our new vision is to be the forerunner in clean energy. It provides a clear future direction, and I'm confident that it will enable value creation, stronger earnings per share, and a good premise for producing stable, sustainable and over time increasing dividends. In the dividend proposal for the 2016 Annual General Meeting, EUR 1.10 per share, the Board of Directors considered the result, balance sheet, general market and price development, and the investment potential of the company.

Fortum's goal is to put the balance sheet to work and to improve the present and future life of our stakeholders, as we state in our mission. Despite the market situation, we are in a good position for continuous growth and profitability. We have very capable and competent personnel, a modern and efficient production fleet, and already 1.3 million electricity sales customers whom we want to serve with our new solutions and services.

I would like to thank our employees for their support and efforts in 2015. A sincere thank you also to our shareholders, customers and partners. Let's continue the work together towards cleaner energy solutions.

Pekka Lundmark
President and CEO

Read more:

- [How we are responding to global megatrends](#)
- [The Solar Economy - our view of the future energy system](#)
- [Our four strategic cornerstones](#)
- [Actions we took towards the clean energy strategy already in 2015](#)

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