Fortum Interim Report January-September 2022

Fortum Corporation

10 November 2022

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Markus Rauramo
President and CEO

Significant progress on Fortum's immediate priorities

Stabilise

- Fortum to fully divest Uniper to the German State
  - EU Commission approval
  - EGM of Uniper (exp. Dec)
- Further financial flexibility secured to weather the commodity price storm
- Robust and sound Fortum standalone Q3 results

Get traction

- Finalisation of controlled exit from Russian market
- Return to debt capital markets
- Ensure security of supply for the upcoming winter in the changing regulatory environment

Recalibrate

- Strategy review of Fortum standalone considering the changed operating environment
- Focus on clean Nordic energy

Fortum’s financial position will considerably restrengthen

Further financial flexibility secured

- **Fortum drew the first tranche of EUR 350 million on the liquidity facility provided by Solidium.**
- Fortum has sufficient liquid funds to meet current collateral requirements. The Nordic power prices have declined from all-time highs, but **Fortum must remain prepared for continued market turbulence.**

Financing arrangement with the Finnish State for potential collateral requirements

Liquidity facility by Solidium

+

An EGM convened on 23 Nov to resolve on a directed share issue without payment to Solidium.

Fortum to fully divest Uniper

- **The German State to buy Fortum‘s shares in Uniper for EUR 1.70/share, a total of EUR 0.5 billion**
- **Uniper to repay the EUR 4 billion shareholder loan and release the EUR 4 billion parent company guarantee facility.[1]**

Sales proceeds from Uniper shares

Release of EUR 8 bn financing

Consideration for Uniper shares

Fortum’s shareholder loan to Uniper

Fortum’s parent company guarantee facility

1. The planned transaction requires completion of final agreements with the German State and regulatory approvals in several geographies, including State Aid clearances from the European Commission. Uniper Extraordinary General Meeting to resolve on the share capital increase to be expected for December 2022.

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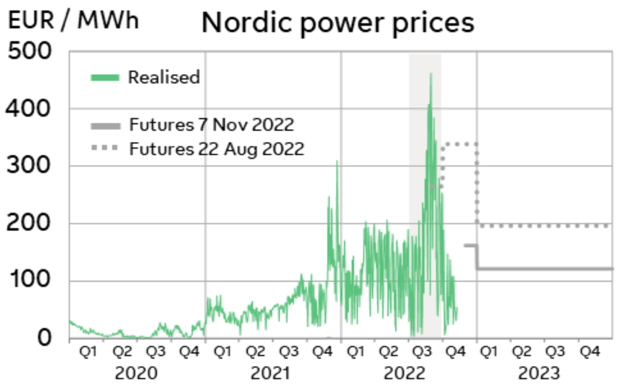
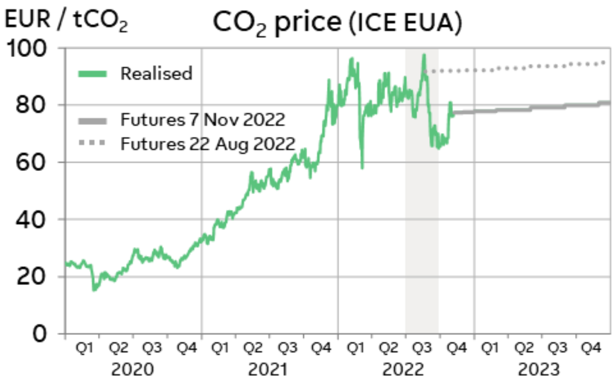
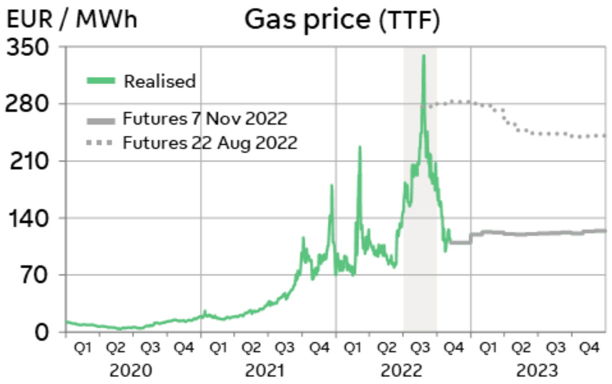
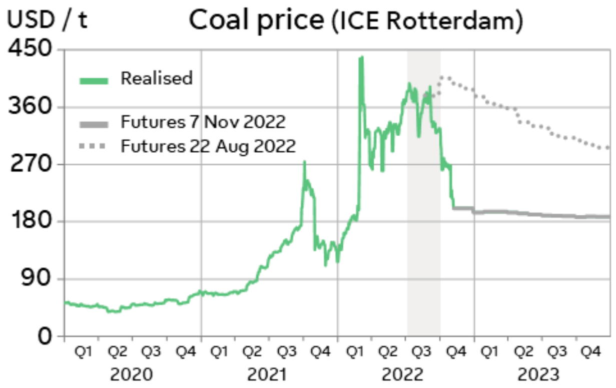
Commodity price environment eased from August highs

Gas and power futures reached extreme levels in August under collateral squeeze









Source: Refinitiv, Bloomberg
Daily market prices 7 November 2022; 2022-2023 future quotations

Low precipitation and high exports

- Nord Stream flows dropping to zero triggered a price rally that led to a record high collaterals with extreme price levels and volatility in power prices on the Continent and in the Nordics
- Nordic spot price follows Continent and gas SRMC as a consequence of new interconnectors and low precipitation.

High energy prices have led to political market interventions

The EU aims to tackle the energy crisis with price interventions addressing affordability for consumers

- Temporary
  - non-binding 10% reduction target on gross electricity consumption and binding 5% peak hours reduction.
  - revenue cap of €180/MWh for inframarginal technology.

Nordic member states implement national measures addressing security of supply

- Various measures to reduce power consumption.
- Discussion on national implementation for revenue price cap on inframarginal technologies (e.g. windfall tax).
- Sweden to start inquiry on market design with priority on firm and dispatchable technology.
- Sweden to incentivise new nuclear construction with €40bn state credit guarantees.

Implementation of energy crisis measures must ensure sufficient supply

- Intervention **must not become permanent**, not to exclude supply short-term or to erode possibilities to invest in energy transition.
- Measures must not result in **blackouts or rationing**
- The long-term market design should address the **energy trilemma**: security of supply, climate and affordability.
- Fortum's main focus is on **securing highest availability** of its generation fleet to tackle the energy crisis.

Clean power generation drives strong performance of continuing operations

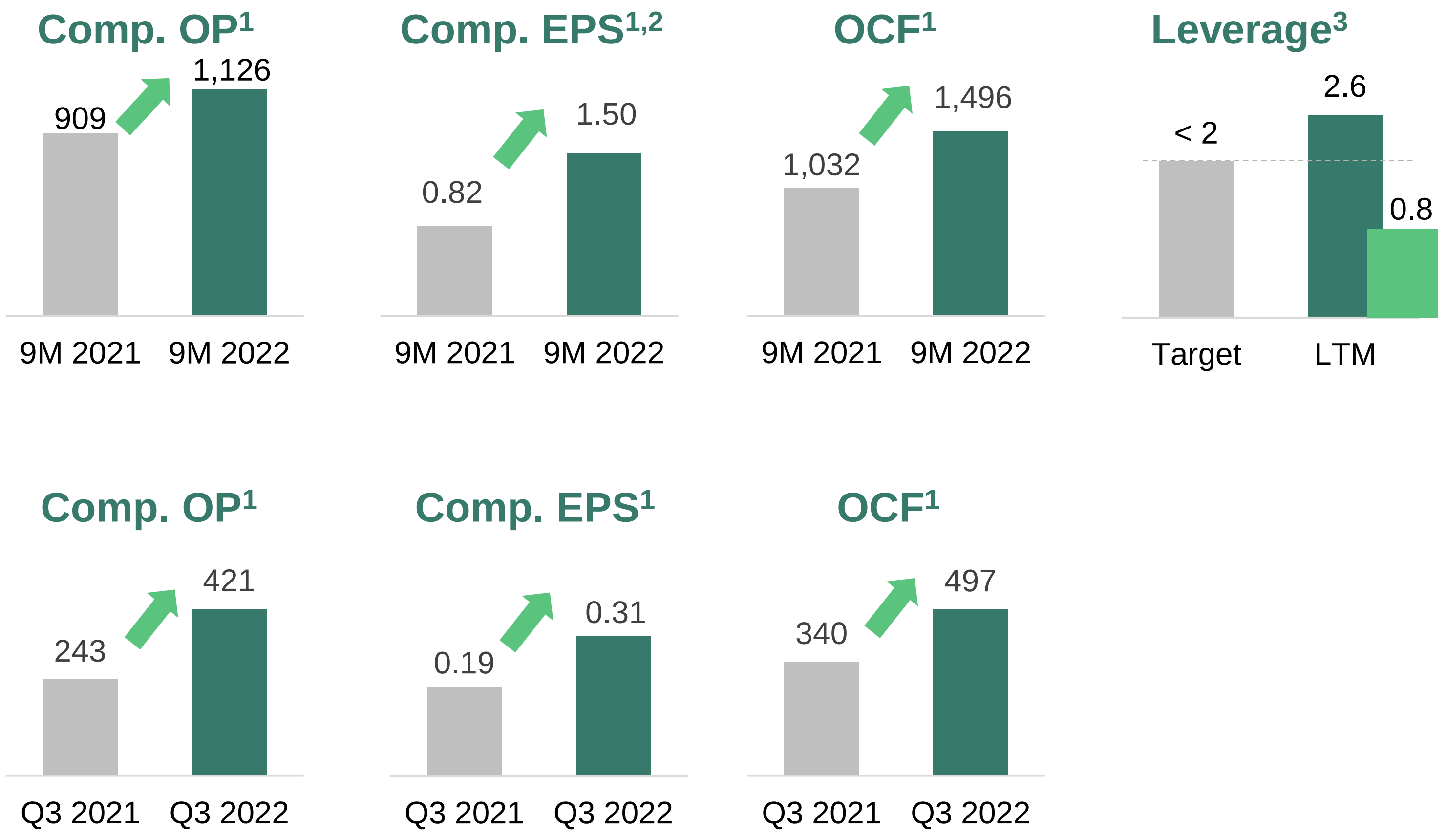
9M

Prevailing extraordinary market fundamentals and strong performance in the Generation segment

Uniper as discontinued operations, Fortum standalone financial position robust and ring-fenced from losses at Uniper

Q3

Strong result in Generation as low wind and low precipitation kept the Nordic spot prices at high level



1. Fortum Group excluding Uniper, comparison figures restated
2. Comp. net financial result includes foreign exchange gains from rouble receivables and the closing of rouble hedges
3. Note: In III/2022 Fortum introduced a new APM ‘Financial net debt adjusted with Uniper receivable’ to include the EUR 4 billion shareholder loan receivable from Uniper that will be repaid upon completion of the transaction to divest Uniper to the German State.(light green)

Bernhard Günther
CFO

Key financials, continuing operations

MEUR	III/2022	III/2021 restated	I-III/2022	I-III/2021 restated	2021 restated	LTM
Sales	2,152	1,296	6,068	4,251	6,422	8,239
Comparable EBITDA	561	386	1,541	1,343	2,016	2,214
Comparable operating profit	421	243	1,126	909	1,429	1,646
Comparable profit before income taxes	354	215	1,732	922	1,405	2,216
Comparable net profit*	276	171	1,333	730	1,091	1,694
Comparable EPS	0.31	0.19	1.50	0.82	1.23	1.91
Net cash from operating activities	497	340	1,496	1,032	1,119	1,583
Financial net debt / Comp. EBITDA**						2.6
Financial net debt *adjusted with Uniper receivable/* Comp. EBITDA						0.8

* Comparable net profit is adjusted for items affecting comparability, adjustments to share of profit of associates and joint ventures, net finance costs, and income tax expenses
** At end-period, not adjusted for the 4 billion Uniper receivable

Strong operational performance driven by clean power generation

- Higher price levels and achieved prices translate into substantially higher earnings
- Comp. EPS improved
- Solid credit metrics with Financial net debt / Comp. EBITDA at 0.8x/ 2.6x
- Strong net cash from operating activities
- Decreasing forward prices lowered margining requirements

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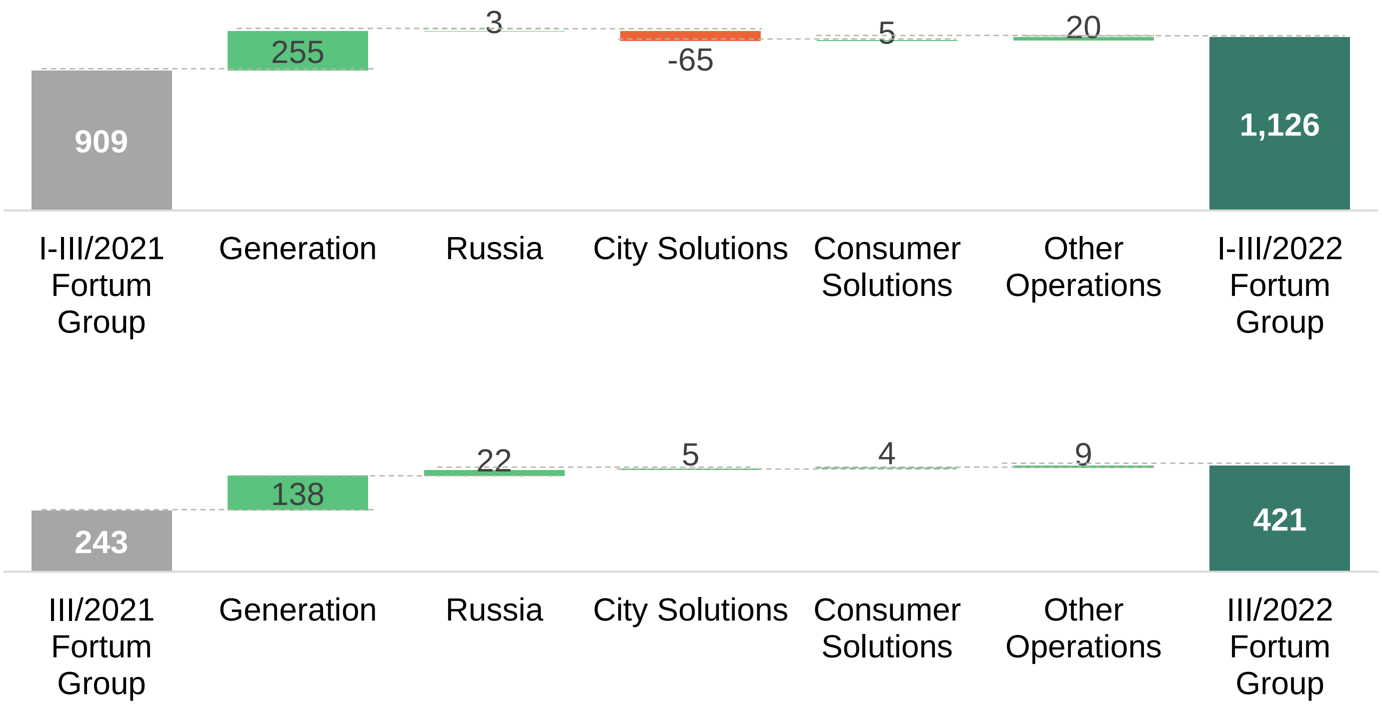
Strong operational performance overcompensating structural effects

Reconciliation of comparable operating profit[1]

(EUR million)



1. Continuing operations, based on restated figures for 2021

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Generation
Higher achieved power price with strong physical optimisation but lower hydro volumes

Russia
One-off effect in 2021 and declining CSAs (Nyagan 1) overcompensated by FX effect

City Solutions
Structural changes due to divestments and higher fossil fuel and CO_2 prices

Consumer Solutions
Higher margins offset by higher costs

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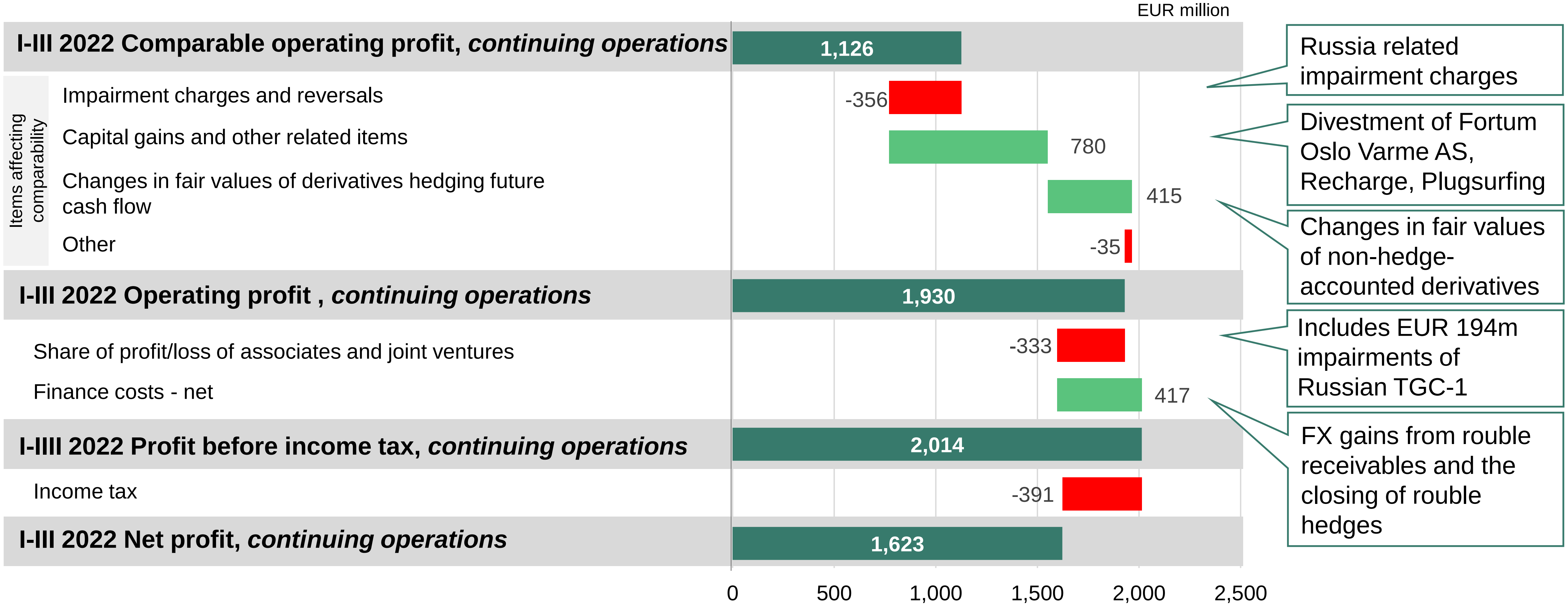
Reported income statement for *continuing* operations dominated by capital gains and fair values of derivatives



Deconsolidation of Uniper

Uniper divestment results in a total loss of slightly below EUR 6bn from the investment in the legal Fortum entity owning the Uniper shares.

- Negative impact on the **parent company Fortum Oyj's** equity remains at sufficient level and does not require additional capital injections.
- Impact on **Fortum Group's** consolidated IFRS balance sheet and income statement:
  - Uniper deconsolidated from the balance sheet: The negative value of divested net assets translates into a positive deconsolidation impact of EUR 27.5bn in addition to the sales proceeds of EUR 0.5bn.
  - The isolated Q3 reported income statement for *discontinued operations* shows a positive effect for 'the owner of the parent' as Fortum has recorded more losses than it has to carry.

Any further losses will not affect Fortum.

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Reported income statement for *discontinued operations (Uniper)*

MEUR	III/2022	I-III/2022
Comparable operating profit from discontinued operations	**-4,177**	**-4,747**
Deconsolidation effect	27,966	27,966
Items affecting comparability	-27,620	-39,621
Operating profit from discontinued operations	**-3,832**	**-16,402**
Share of profit/loss of associates and JV	14	71
Finance costs - net	-69	-1,052
Profit before income tax	**-3,886**	**-17,383**
Income tax expense	3,796	6,081
Net profit from discontinued operations	**-90**	**-11,302**
Attributable to:		
Owners of the parent	**5,498**	**-3,428**
Non-controlling interests	-5,588	-7,874
Net profit from continuing operations	**600**	**1,623**
Net profit from discontinued operations	**-90**	**-11,302**
Net profit, total Fortum	**510**	**-9,679**

9M comparable operating profit of EUR -4.7bn

Deconsolidation effect of Uniper of EUR 28 bn mainly comprises divested negative net assets of EUR 27.5bn and expected sales proceeds of EUR 0.5bn

Items affecting comparability mainly includes the impact of Uniper's derivative financial instruments and provisions for future losses

Net profit from *discontinued* operations attributable to Fortum positive of EUR 5.5bn for Q3 due to the deconsolidation effect – while negative of EUR -3.4bn YTD 2022

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Balance sheet has decreased significantly following the deconsolidation of Uniper

MEUR	30-Sep-22	30-Jun-22	MEUR	30-Sep-22	30-Jun-22
Property, plant and equipment and right-of-use assets	8,252	18,336	**Total equity**	6,543	1,311
Derivative financial instruments	3,845	167,800	Derivative financial instruments	8,658	182,065
Interest-bearing receivables	5,389	2,015	Interest-bearing liabilities	12,987	14,277
Intangible assets	654	1,897	Nuclear provisions	957	3,726
Participations in associates and JVs	1,586	2,316	Other provisions	113	11,877
Shares in Nuclear Waste Funds	957	3,213	Pension obligations, net	20	484
Inventories	307	3,983	Other	653	1,402
Margin receivables	3,694	10,719	Margin liabilities	748	3,587
Other assets including trade receivables	2,899	17,132	Trade and other payables	1,040	12,939
Liquid funds	3,638	4,165			
Assets held for sale	498	92			
Total assets	**31,719**	**231,669**	**Total equity + liabilities**	**31,719**	**231,669**

IFRS Equity up quarter-on-quarter as Q3 net profit from *discontinued operations* attributable to Fortum is positive of EUR 5.5bn due to deconsolidation effect

Substantial de-risking of the balance-sheet with the deconsolidation of Uniper

In addition to Uniper deconsolidation effect, lower net **margin receivables and liabilities** due to mitigation measures despite higher prices …

Note: Balance sheet has not been restated following the deconsolidation of Uniper

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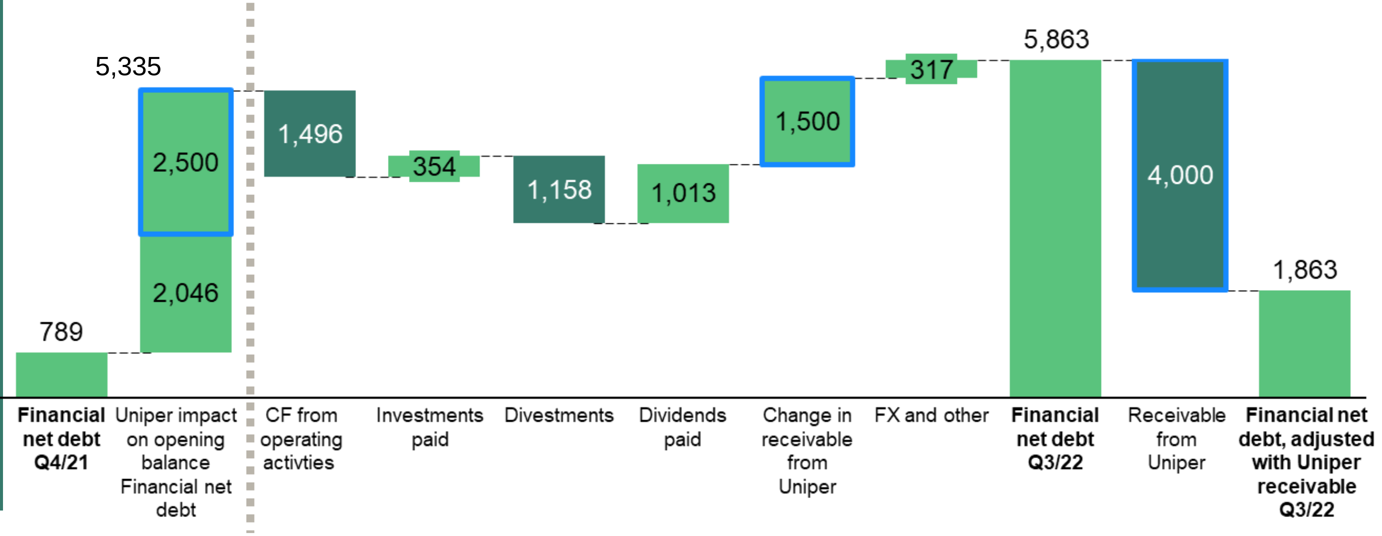
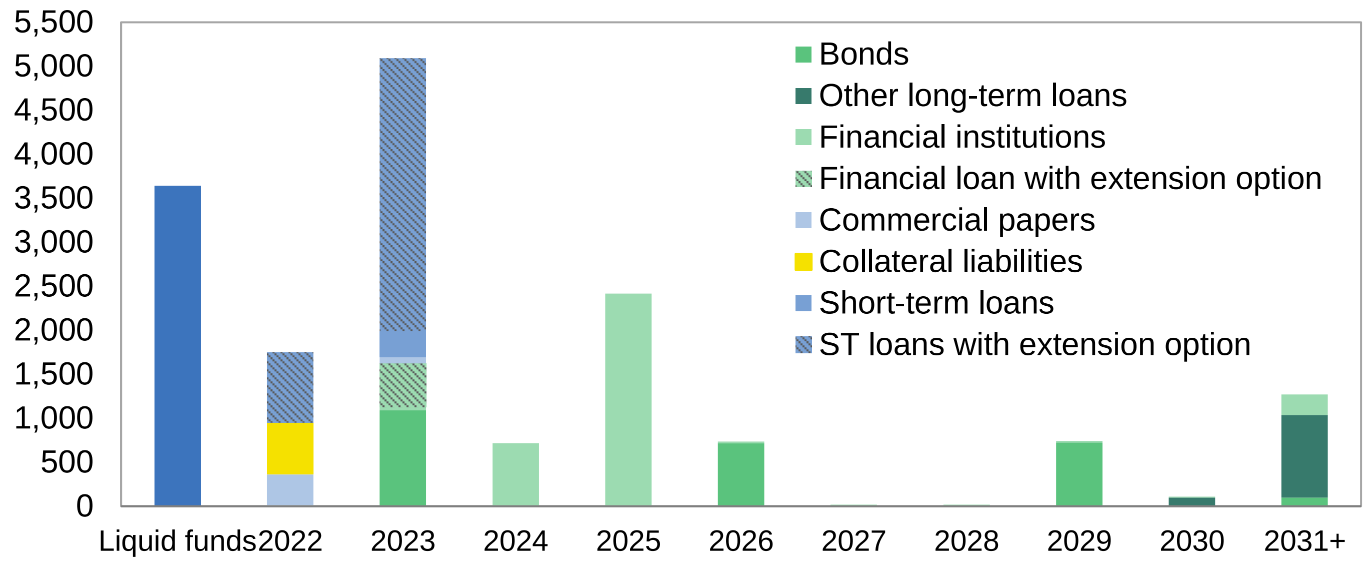
Leverage decreasing significantly, gross debt down

Financial net debt



Contractual maturities



Solid credit metrics

S&P Global Ratings — 'BBB' long-term issuer credit rating, Negative outlook

FitchRatings — 'BBB' long-term issuer credit rating, Negative outlook

Target ratio:
Financial net debt / Comp. EBITDA < 2x

Fortum's objective:
Maintain solid investment grade rating of at least BBB to maintain financial strength, preserve financial flexibility, and good access to capital.

Total loans EUR 12.9 billion (excl. lease)
- Average interest for Fortum Group loan portfolio including derivatives hedging financial net at 2.3% (2021: 1.3%).
- Average interest for EUR loans 1.8% (2021: 0.6%)

Liquid funds of EUR 3.6 billion

Undrawn credit facilities of EUR 2.0 billion

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Outlook

Generation segment Nordic hedges:

For the remainder of 2022:	80% hedged at EUR 49 per MWh
For 2023:	65% hedged at EUR 49 per MWh (Q2: 60% at EUR 37)
For 2024:	40% hedged at EUR 38 per MWh (Q2: not disclosed)

NEW Capital expenditure:
The **capex guidance** for 2022 for continuing operations **is EUR 550 million** total, including EUR 300 million of maintenance, excluding potential acquisitions
(Previously: Group level guidance was cancelled in Q2)

UPDATED Tax guidance for 2022-2023:
Comparable effective income tax rate for Fortum's continuing operations is estimated to be in the range of 21-23% for 2022 and 20-23% for 2023.

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Q&A
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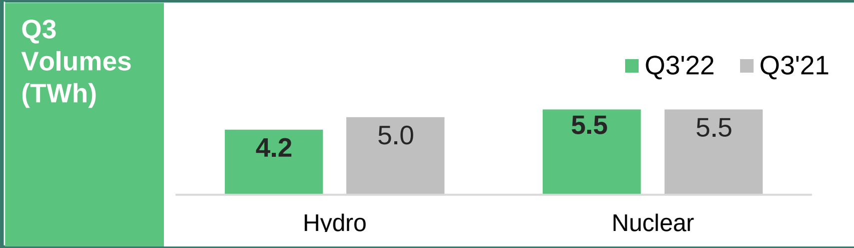
Generation:
Higher achieved power prices

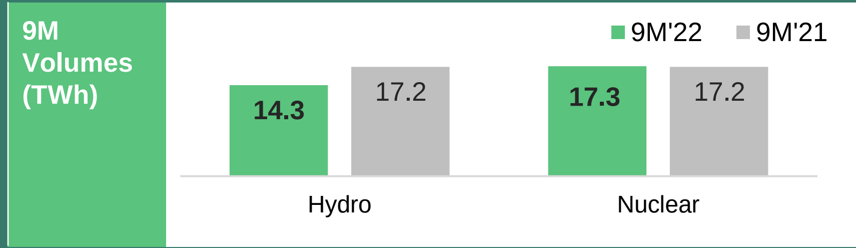
Q3 2022 vs. Q3 2021

- Comparable operating profit increased by 58% mainly due to
  - Higher achieved power prices of EUR 63.9 (+EUR 20 per MWh) mainly due to record-high physical optimisation, higher spot prices, and higher hedge price
  - Lower hydropower volumes due to lower inflow and lower reservoir, Nuclear volumes were at the same level as in the third quarter of 2021. Olkiluoto (OL3), which currently is in the test production phase, could compensate for longer than planned outages.
  - The achieved power price was also negatively impacted by the difference in Sweden between the high system price and the low SE2-area spot.

9M 2022 vs. 9M 2022

- Comparable operating profit increased by 37% mainly due to
  - Achieved power price increased by EUR 13 per MWh, up by 34% following very successful physical optimisation and higher spot prices but also impacted by liquidity in SE2-area price products
  - The Generation segment’s total power generation in the Nordic countries decreased due to lower hydropower volumes.





MEUR	III/ 2022	III/ 2021	I-III/ 2022	I-III/ 2021	FY 2021	LTM
Sales	894	676	2,310	1,916	2,869	3,264
Comp. EBITDA	416	278	1,073	817	1,287	1,542
Comp. OP	375	237	950	695	1,123	1,377
Comp. net assets			5,573	5,906	5,961	
Comp. RONA %					19	23.9
Gross in-vestment	78	37	154	99	175	230

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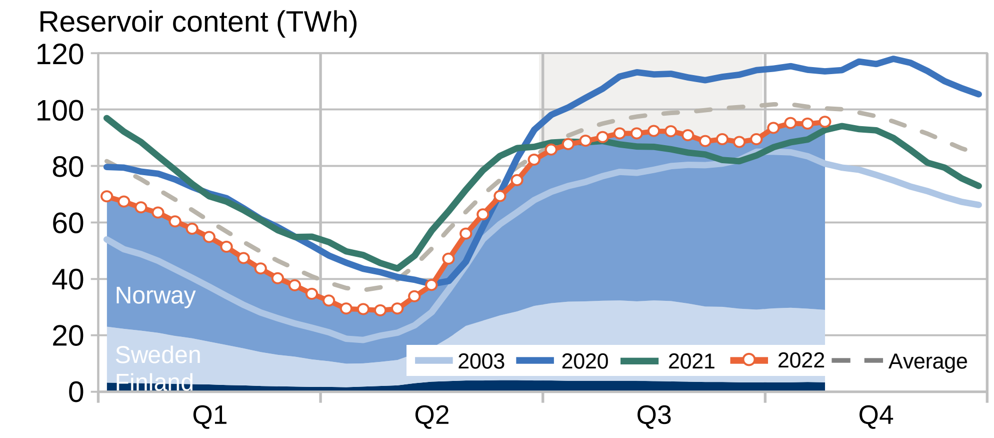
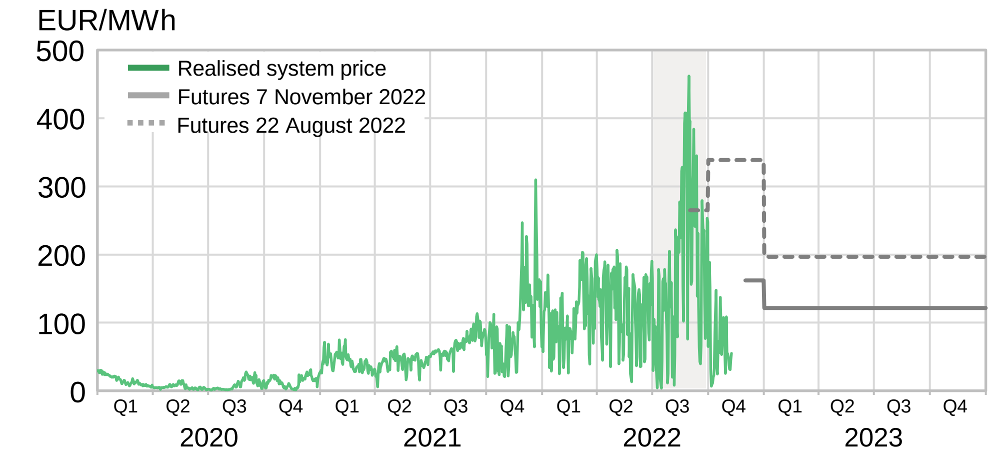
Nord Pool system price driven to new price record

Water reservoirs



Power price



Source: Nord Pool, Nasdaq Commodities

- Compared to long-term average, Nordic water reservoirs were declining from -2 TWh to -12 TWh during Q3.
- Inflow realised clearly below normal while hydro generation remained at normal level in the second quarter of 2022.
- The deficit in water reservoirs is in southern price areas only.

- Nord Pool system spot price made fifth consecutive quarterly record, reaching EUR 176 (68) per MWh in Q3 2022. Next year forward price climbed from 110 to 180 €/MWh during the quarter, peaking at 270 €/MWh level in August.
- Nordic SYS spot price was driven by high fuel and continental power prices together with low precipitation in Southern Norway and discontinuation of Russian electricity exports to Finland.
- Similarly, the Nordic forward curve is supported by prices in the Continental Europe, recent additions to interconnector capacity and stop in Russian power imports.
- Prices in Continental Europe, in turn, are impacted by high fuel prices and low availability in French nuclear fleet.

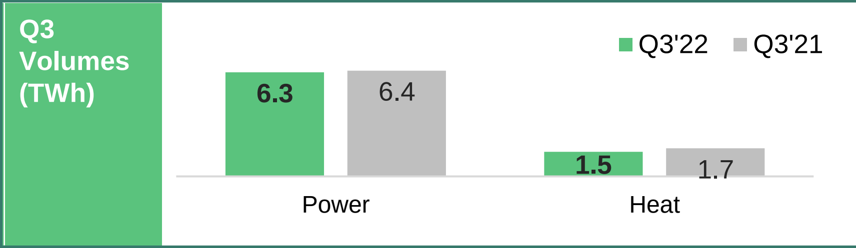
Russia:
Solid underlying performance

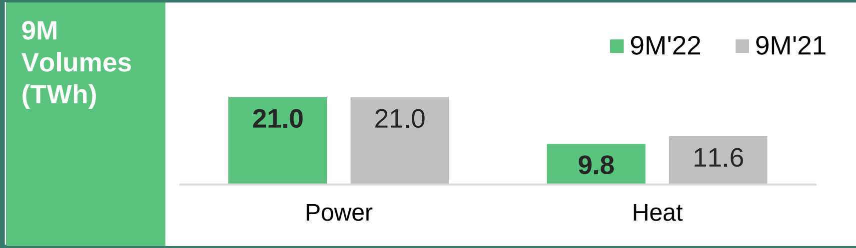
Q3 2022 vs. Q3 2021

- Comparable operating profit increased by 49%, or EUR 22 million. The positive effects from the EUR 19 million change in the Russian rouble exchange rate, lower depreciation following impairments recognised in the first quarter, as well as higher power prices were partly offset by the expiry of the CSA period for the Nyagan 1 production unit.
- Power generation volumes decreased by 2% as well as heat volumes by 12% due to the divestment of the Argayash CHP.

9M 2022 vs. 9M 2021

- Comparable operating profit increased by 2%, or EUR 3 million. The EUR 25 million effect of the change in the Russian rouble, higher power prices and lower depreciation was partly offset by the negative effect from the CSA expiry for Nyagan 1.
- The comparison period includes a EUR 17 million positive effect of the sale of a solar power project to Fortum-RDIF joint venture.





MEUR	III/ 2022	III/ 2021	I-III/ 2022	I-III/ 2021	FY 2021	LTM
Sales	262	193	702	639	906	969
Comp. EBITDA	107	81	290	285	404	409
Comp. OP	67	45	185	182	261	264
Comp. net assets			3,328	2,551	2,508	
Comp. RONA %					12.9	10.3
Gross in-vestment	12	24	25	60	83	47

CSA = Capacity Supply Agreement

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City Solutions:
Structural changes and lower volumes

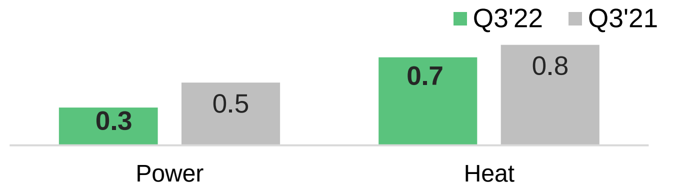
Q3 2022 vs. Q3 2021

- Comparable operating profit increased by EUR 5 million
  - as a result of higher power prices, increases in heat prices and the divestment of the ownership in Fortum Oslo Varme, partly offset by the clearly higher fossil fuel and CO_2 emission allowance prices and decreasing metal prices related to the Recycling and Waste Solutions.
  - structural changes from the divestments of the Baltic district heating business and the 500-MW solar plants in India.

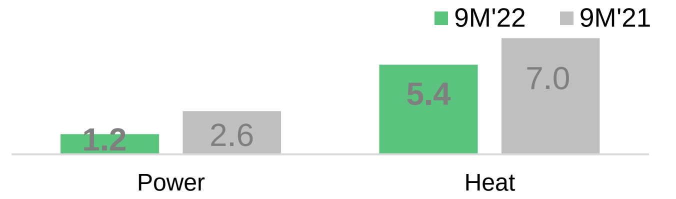
9M 2022 vs. 9M 2021

- Comparable operating profit decreased by EUR 65 million,
  - mainly as a result of clearly higher fossil fuel and CO_2 emission allowance prices, as well as lower heat volumes due to warmer weather, partially offset by higher power prices and the divestment of the ownership in Fortum Oslo Varme.
  - Structural changes from the divestments of the Baltic district heating business and 250-MW Pavagada II and the 250-MW Rajasthan solar plants in – also impacting generation volumes.

Q3 Volumes (TWh)



9M Volumes (TWh)



MEUR	III/ 2022	III/ 2021	I-III/ 2022	I-III/ 2021	FY 2021	LTM
Sales	254	201	873	876	1,302	1,300
Comp. EBITDA	17	22	107	197	317	227
Comp. OP	-16	-21	-3	62	135	70
Comp. net assets			1,655	2,561	2,456	
Comp. RONA %					6.1	4.2
Gross in-vestment	46	34	109	120	162	151

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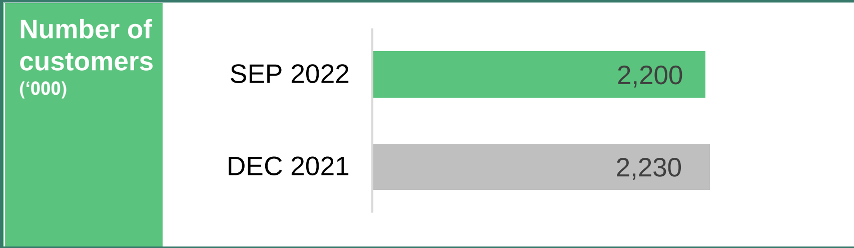
Consumer Solutions: Challenging market environment

Q3 2022 vs. Q3 2021

- Comparable operating profit increased by 31%, mainly due to improved electricity and gas sales margins, the effect of which was partly offset by higher costs.
- The colder weather compensated slightly for the lower than average customer base. In Poland, the gas sales volumes decreased by 20%, due to unprecedently high prices reducing demand and consumption compared to the third quarter of 2021.

9M 2022 vs. 9M 2021

- Comparable operating profit increased by 7%, mainly due to higher electricity and gas sales margins, offset by higher costs.
- The electricity sales volumes decreased by 6%, mainly due to higher temperatures in the Nordics compared to the clearly colder weather in the first quarter of 2021 and a slightly lower customer base. The gas sales volumes decreased by 17%, as temperatures were higher than normal, and the unprecedentedly high prices lowered demand and consumption in Poland.



MEUR	III/ 2022	III/ 2021	I-III/ 2022	I-III/ 2021	FY 2021	LTM
Sales	1,094	485	3,118	1,570	2,622	4,171
Comp. EBITDA	36	31	130	120	123	132
Comp. OP	17	13	73	68	52	56
Comp. net assets			1,039	701	1,125	
Gross in-vestment	18	13	51	49	68	70

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