



Half-Year Financial Report January-June 2017

Fortum Corporation

20 July 2017

Disclaimer

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Past performance is no guide to future performance, and persons needing advice should consult an independent financial adviser.

Any references to the future represent the management's current best understanding. However the final outcome may differ from them.

Strategy implementation and capital redeployment continued

**70 MW solar power
in India**



**Nuclear services in
Germany**



Hafslund deal



**Wind power in
Nordics and Russia**

**Charge & Drive
network expanded**



**Digitalising our
customer interface;
MyFortum app**



Fortum's performance in Q2 2017

- Wholesale prices increased, but are still on low levels
- Comparable operating profit EUR 109 (122) million, decrease mainly due to lower hydro volumes
- Continued strong result in the Russia segment EUR 53 (34) million
- Earning per share EUR -0.08 (0.06) impacted by
 - Swedish income tax case EUR -0.14 (0.00) and
 - Items affecting comparability EUR -0.04 (-0.05)
- Hafslund restructuring announced in April, closing expected during Q3
- Reduction of fixed costs according to earlier announced plan (EUR 100 million) has proceeded well
- Increased development efforts in new ventures and R&D affected the results of the Other segment, but is expected to start paying back from 2018
- Oskarshamn, unit 1 shut down 17 June 2017



Market conditions in Q2 2017

Nordic countries

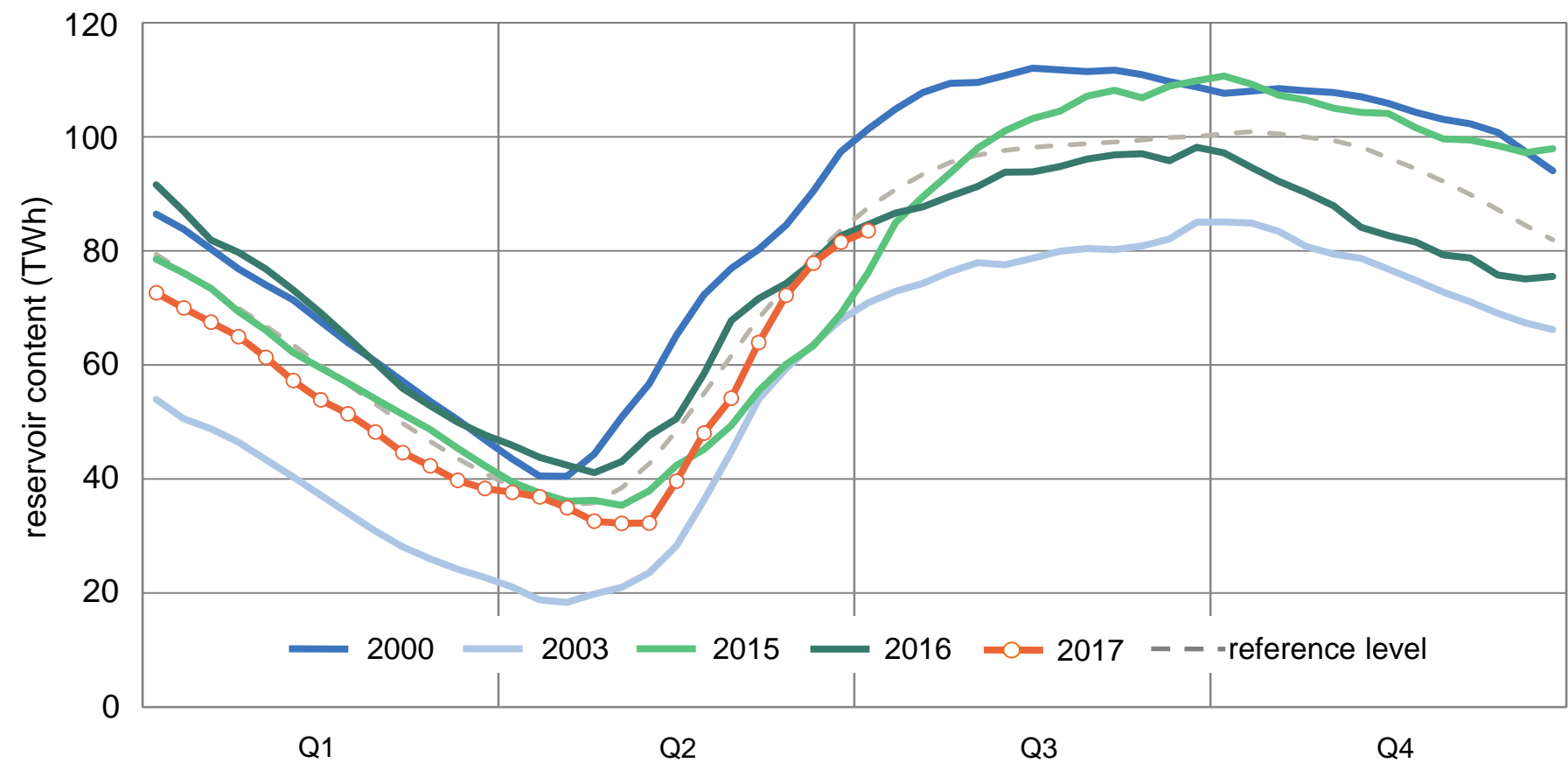
- Electricity consumption totalled 88 (86) TWh in Q2 2017. Colder weather in Q2 2017 than in Q2 2016. January-June consumption 202 (203) TWh
- System spot price 27.4 (23.9) EUR/MWh, Finnish area price was 30.9 (30.2) EUR/MWh and Swedish (SE3) area price 28.5 (26.5) EUR/MWh
- Market price of CO₂ emission allowances (EUA) was EUR 6.5 per tonne at the beginning of the year and EUR 5.0 per tonne at the end of the second quarter of 2017

Russia

- Electricity consumption was 238 (230) TWh in Q2 2017. In Fortum's operating area in the First price zone 184 (176) TWh in Q2 2017
- Average electricity spot price, excluding capacity price, in Urals hub remained at the same level as in the second quarter of 2016

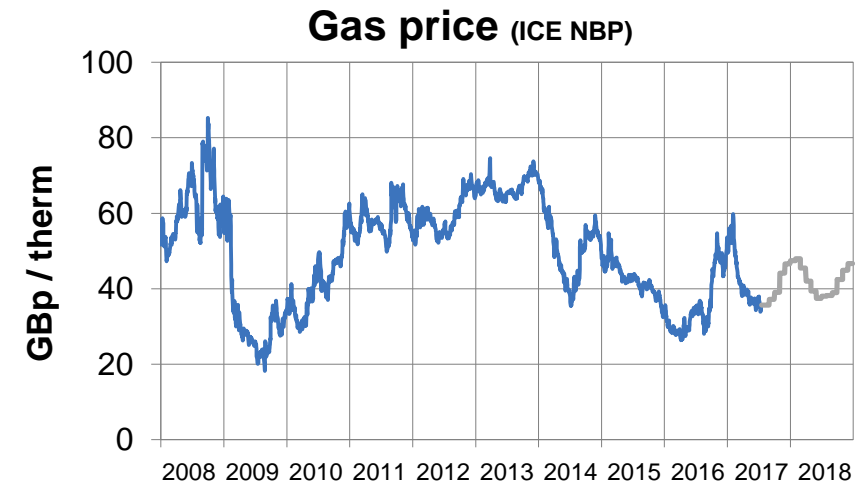
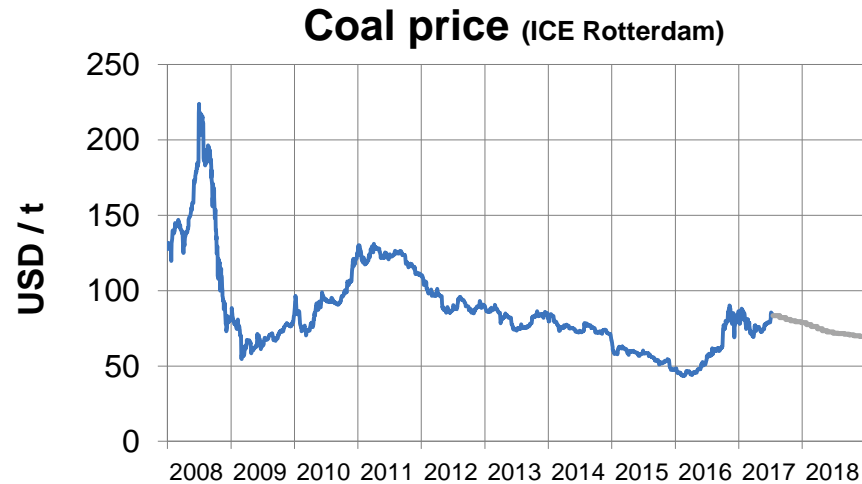
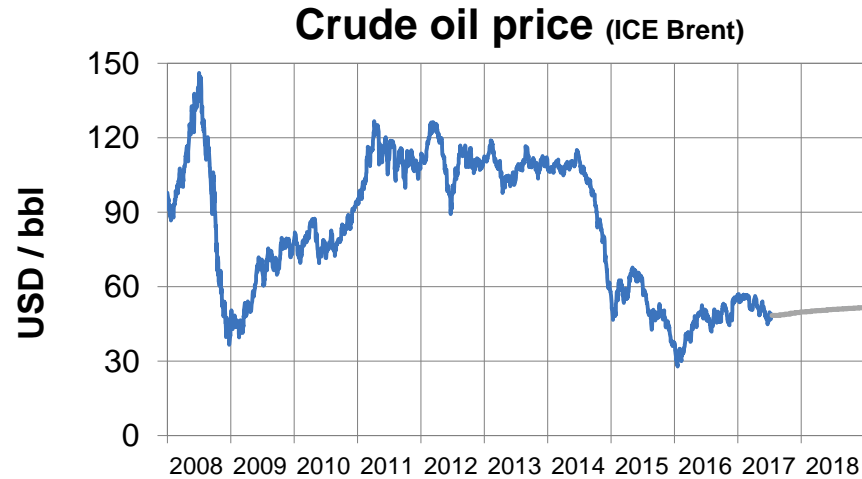


Nordic water reservoirs



Source: Nord Pool

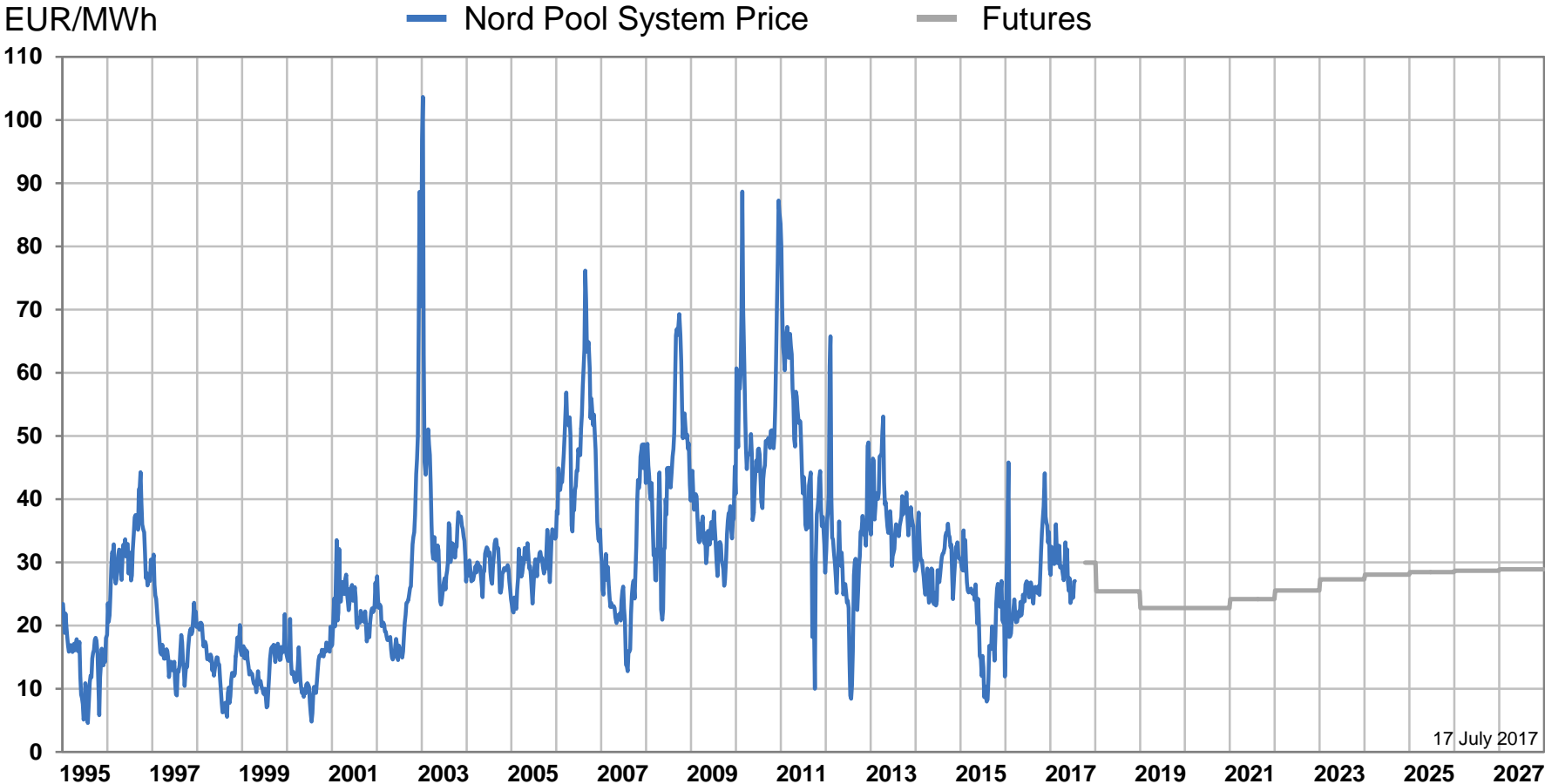
Fuel and CO₂ allowance prices



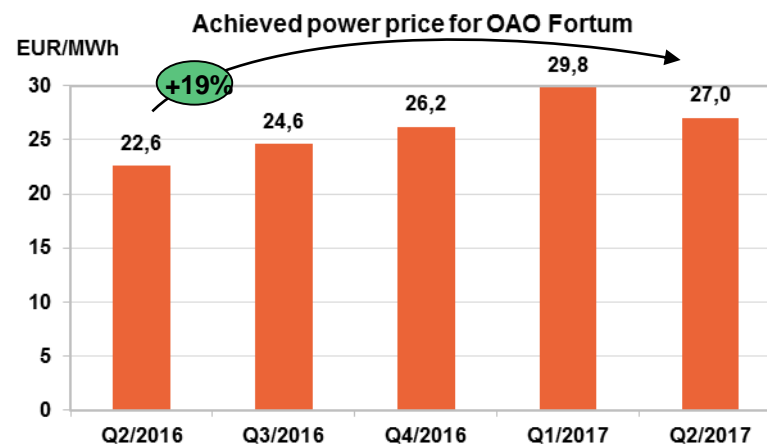
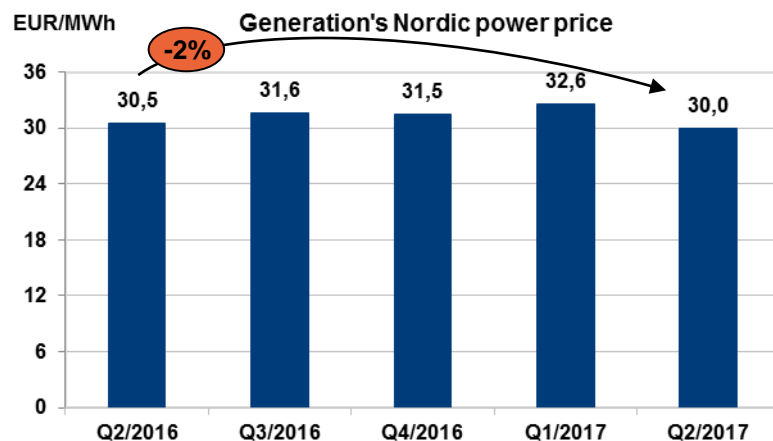
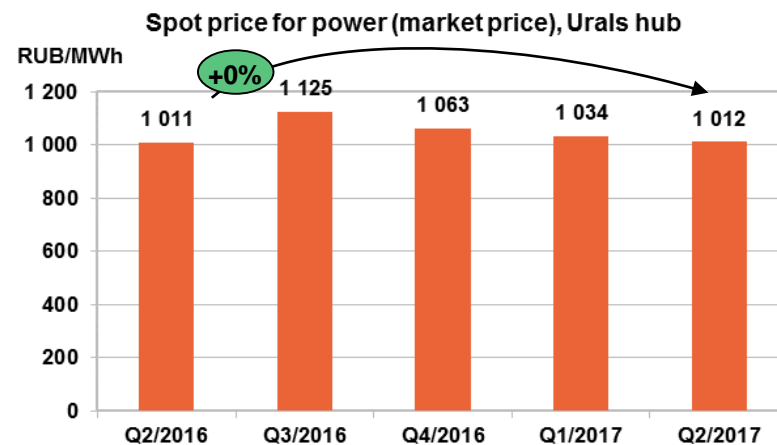
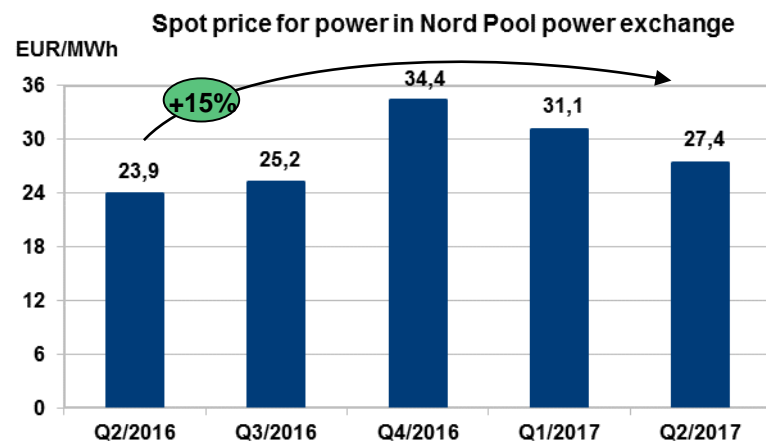
Source: ICE, Thomson Reuters

Market prices 17 July 2017; 2017-2018 future quotations

Wholesale power price



Price development in the Nordic region and Russia



NOTE: Achieved power price in roubles increased appr.5%
Includes capacity income

Key figures Q2 2017

MEUR	II/17	II/16	I-II/17	I-II/16	2016	LTM
Sales	937	768	2,169	1,757	3,632	4,044
Comparable EBITDA	219	209	642	566	1,015	1,091
Operating profit	66	67	456	437	633	652
Comparable operating profit	109	122	421	397	644	668
Share of profits of associates and joint ventures	35	38	94	105	131	120
Profit before taxes	49	61	461	451	595	605
Earnings per share, EUR	-0.08	0.06	0.30	0.43	0.56	0.43
Net cash from operating activities	232	-5	514	370	621	765

Generation

- Lower hydro production volumes and lower achieved power price burdened the results
- Excellent nuclear availability and higher thermal volumes partly offset the result effect
- Nordic hydro reservoirs 2 TWh lower than a year ago



MEUR	II/17	II/16	I-II/17	I-II/16	2016	LTM
Sales	402	384	876	851	1,657	1,682
Comparable EBITDA	111	124	277	306	527	498
Comparable operating profit	78	98	214	253	417	378
Comparable net assets			5,724	5,832	5,815	
Comparable RONA %					6.9	6.0
Gross investments	42	50	67	77	203	193

City Solutions

- Colder weather positively impacted the heat sales 5.4 (4.7) TWh
- Strong sales and EBITDA improvement mainly due to Ekokem
- Comparable operating profit also positively impacted by favourable fuel mix



MEUR	II/17	II/16	I-II/17	I-II/16	2016	LTM
Sales	205	121	495	349	782	928
Comparable EBITDA	37	20	131	90	186	227
Comparable operating profit	1	-5	57	39	64	82
Comparable net assets			2,889	2,020	2,873	
Comparable RONA %					5.9	5.8
Gross investments	43	17	63	37	807	833

Consumer Solutions

- Sales increased, mainly due to the increased Nordic prices and the higher trading activity in Poland
- Lower average margins in electricity products and increased focus and spend on development of new digital services impacted the result negatively
- Strong competition in the Nordics is expected to continue challenging, putting pressure on sales margins
- Announced Hafslund deal will almost double the Nordic customer base to 2.4 million customers



MEUR	II/17	II/16	I-II/17	I-II/16	2016	LTM
Sales	164	146	406	321	668	753
Comparable EBITDA	8	15	22	29	55	48
Comparable operating profit	6	13	18	26	48	40
Comparable net assets			129	125	154	
Customer base, million			1.36	1.35	1.36	
Gross investments	1	3	3	117	120	6

Russia

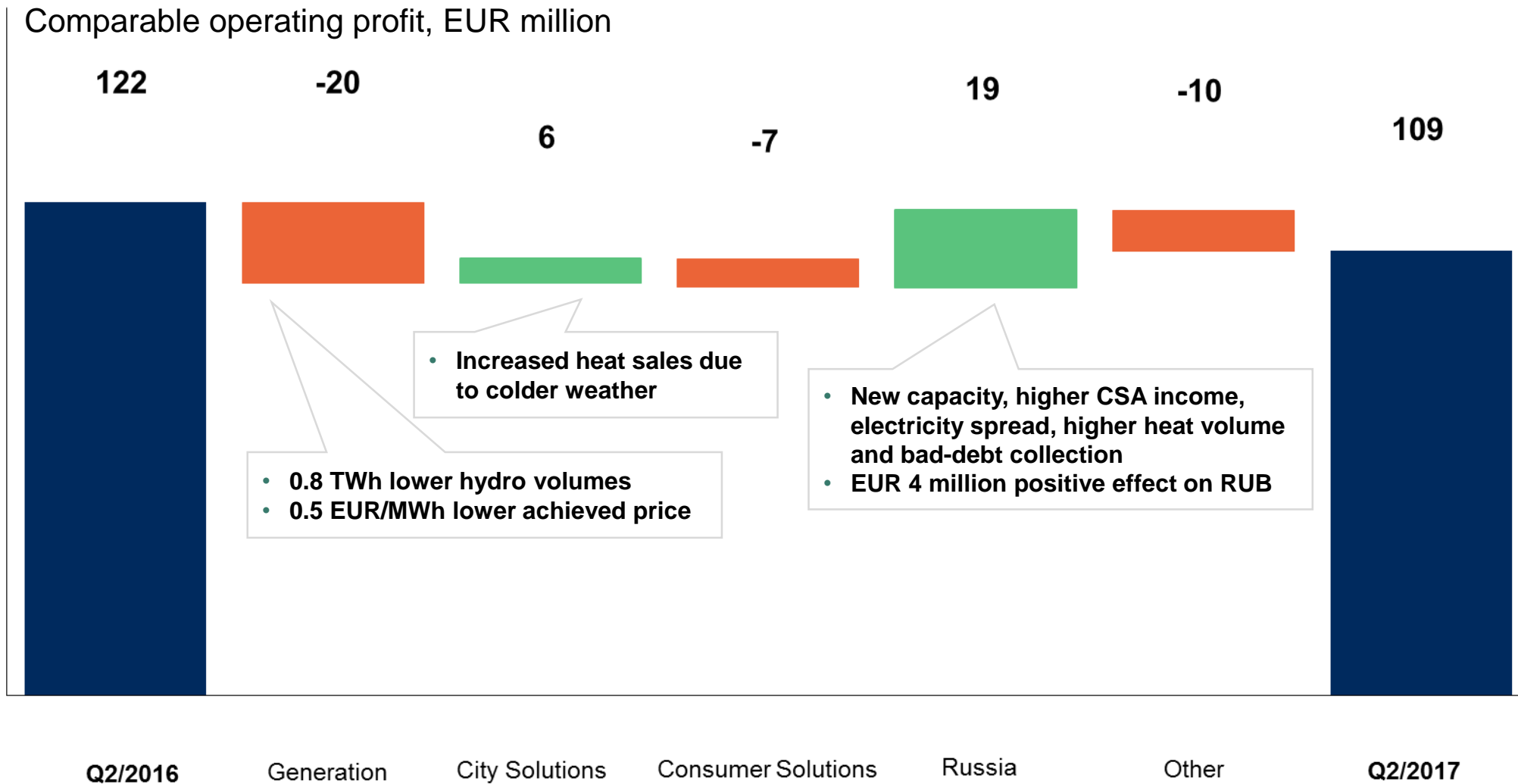
- Sales increased due to strengthening RUB, higher CSA payments and heat sales
- Lower fuel costs and improved bad-debt collection also improved the results
- 1,000 MW of 50/50 owned Fortum-RUSNANO wind investment fund bids selected in Russian CSA auction



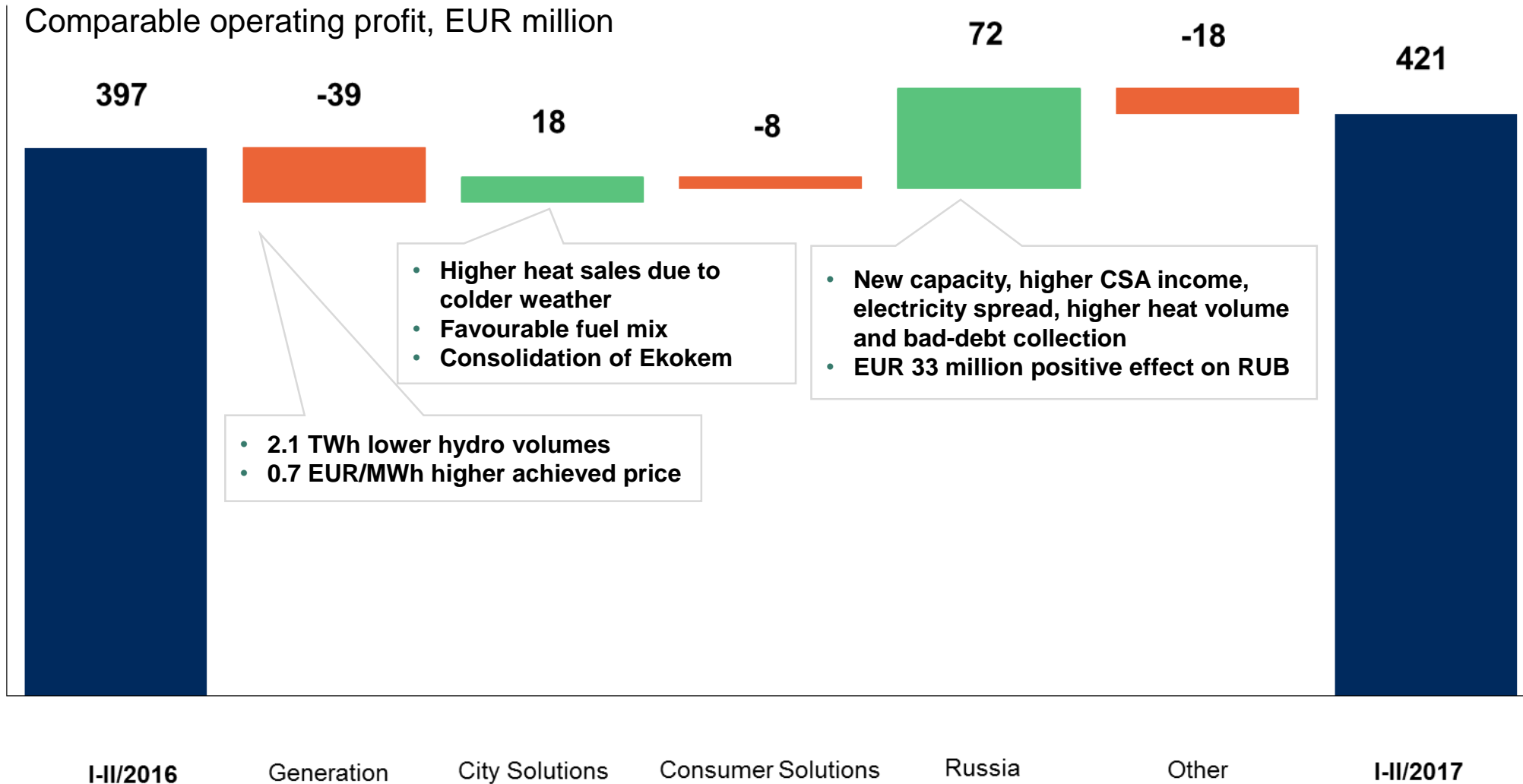
MEUR	II/17	II/16	I-II/17	I-II/16	2016	LTM
Sales	238	182	586	431	896	1,051
Comparable EBITDA*	88	64	256	169	312	399
Comparable operating profit	53	34	185	113	191	263
Comparable net assets			3,156	2,871	3,284	
Comparable RONA %					8.0	9.3
Gross investments	42	53	73	93	201	181

* Excluding the net release of CSA provision

Q2/2017: Lower hydro volumes – Russia results improved



I-II/2017: Lower hydro volumes – Russia results improved



Income statement

MEUR	II/17	II/16	I-II/17	I-II/16	2016	LTM
Sales	937	768	2,169	1,757	3,632	4,044
Other income and expenses	-828	-646	-1,748	-1,360	-2,988	-3,376
Comparable operating profit	109	122	421	397	644	668
Items affecting comparability	-42	-54	34	40	-11	-17
Operating profit	66	67	456	437	633	652
Share of profit of associates and joint ventures	35	38	94	105	131	120
Finance costs, net	-52	-44	-88	-91	-169	-166
Profit before taxes	49	61	461	451	595	605
Income tax expense	-118	-4	-190	-62	-90	-218
Net profit	-69	57	271	389	504	386
EPS (EUR)	-0.08	0.06	0.30	0.43	0.56	0.43

Cash flow statement

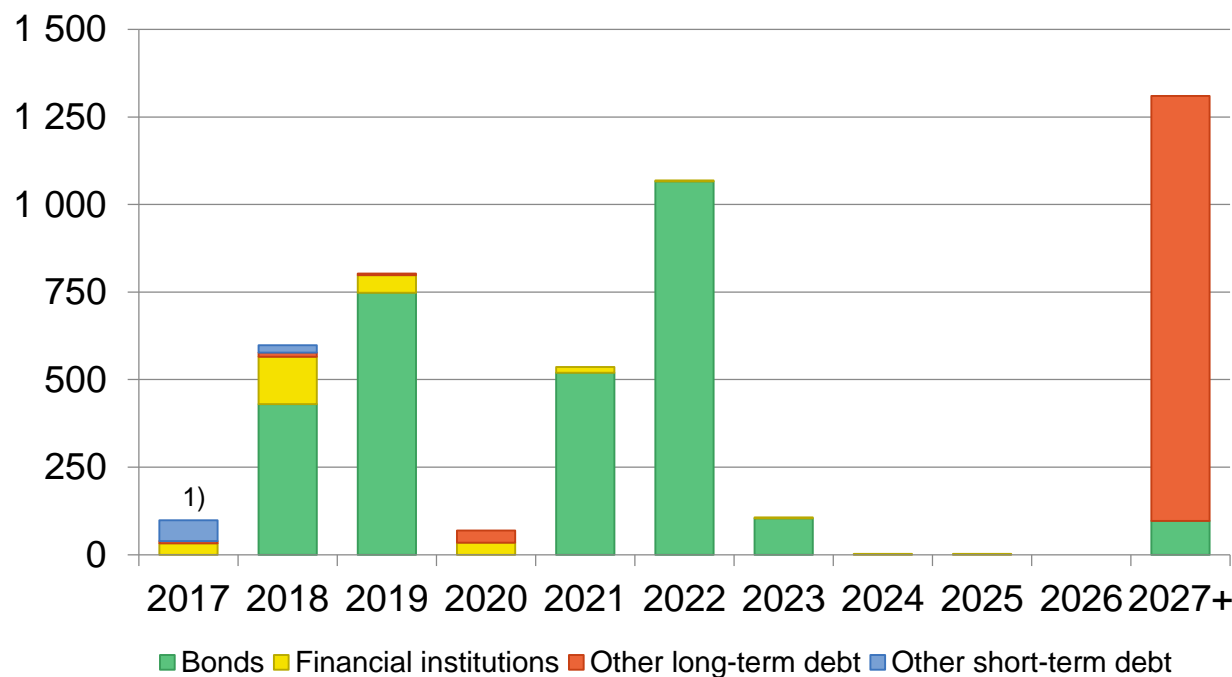
MEUR	II/17	II/16	I-II/17	I-II/16	2016	LTM
Cash from operating activities:						
Comparable EBITDA	219	209	642	566	1,015	1,091
Realised FX gains/losses	-6	-1	-63	128	110	-81
Paid net financial costs, income taxes and other	-35	-191*	-130	-331*	-402*	-201
Change in working capital	54	-22	65	7	-102	-44
Cash from operating activities	232	-5	514	370	621	765
Cash used in investing activities:						
Paid capital expenditures	-128	-130	-308	-244	-599	-663
Acquisitions of shares	-25	-9	-51	-113	-695	-633
Change in cash collaterals	-110	-93	72	-269	-359	-18
Other investing activities	65	-30	88	-15	-48	55
Total investing activities	-198	-262	-199	-641	-1,701	-1,259
Cash flow before financing activities	34	-266	315	-271	-1,080	-494

* Includes the payment of income taxes EUR 127 million regarding Swedish income tax case

Debt portfolio and average interest rate on the balance sheet date

30 June 2017

Maturity profile



- Total interest-bearing debt EUR 4,711 million
 - Average interest 3.4% (2016: 3.5%)
 - Portfolio mainly in EUR and SEK with average interest cost 2.0% (2016: 2.1%)
 - EUR 761 million (2016: 805) swapped to RUB, average interest cost including cost for hedging 10,7% (2016: 11.4%)

1) In addition Fortum has received EUR 116 million based on Credit Support Annex agreements with several counterparties. This amount has been booked as a short term liability.

Fortum has significant financial headroom available for market consolidation

MEUR	LTM	2016	Target
Comparable EBITDA	1,091	1,015	
Interest-bearing net debt	605	-48	
Comparable net debt/EBITDA	0.6	0.0	Around 2.5
ROCE % Return on capital employed	4.3	4.0	At least 10%

Liquid funds totalled EUR 4.1 billion
Committed credit lines total EUR 1.9 billion

Outlook

Nordic markets

- Fortum continues to expect that the annual electricity demand growth will be approximately 0.5% on average
- Electricity is expected to continue to gain share of total energy consumption

2017 Annual capex estimate, excluding acquisitions

- Approximately EUR 800 million (maintenance capex below EUR 300 million)

Hedging

- Rest of 2017 approximately 45% hedged at EUR 30/MWh
- 2018 approximately 45% hedged at EUR 28/MWh

Taxation

- Effective tax rate for 2017 for the Group 19-21% *
- In Sweden
 - Nuclear taxes reduced from 1 July 2017 and abolished by 2018
 - Hydro assets' real estate tax rate decreased from 2.8% to 0.5% over a four-year period
- Swedish Administrative Court ruled (on 30 June 2017) in Fortum Sverige AB's favour regarding hydro real-estate tax for 2009-2014 (EUR 53 million). The tax authority may still appeal.

* Excluding the impact of the share of profits of associated companies and joint ventures, non-taxable capital gains, and a Swedish income tax case.

