



Interim Report January-March 2017

Fortum Corporation

27 April 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.

Fortum's performance in Q1 2017

- Slightly improved market conditions in the beginning of 2017
- Wholesale prices increased, but are still on low levels
- Russian EBIT target RUB 18.2 billion reached during last 12 months
- Comparable operating profit EUR 313 (275) million, increase mainly due to Russia and the consolidation of Ekokem
- Low hydro volumes burdened the Generation segment, partially offset by higher achieved power price
- City Solutions split into two divisions in order to support strategy implementation: City Solutions and Consumer Solutions
- Rajasthan solar park, in India, commissioned in March (70 MW)
- Reduction of fixed costs according to earlier announced plan (EUR 100 million) has proceeded well
- Strategy execution in focus – phase one and two
- Fortum and City of Oslo to restructure ownership in Hafslund



Fortum and City of Oslo to rearrange their ownership in Hafslund

Fortum sells for
EUR ~**730** million

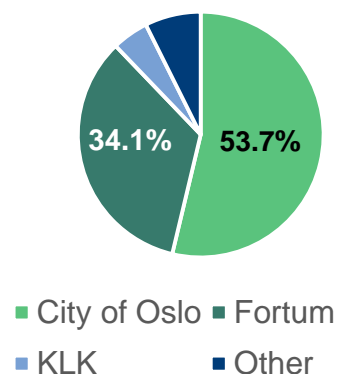
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Fortum buys for
EUR ~**970** million

=

Net investment
EUR ~**240** million

Hafslund
ownership, today



Markets



100% Fortum



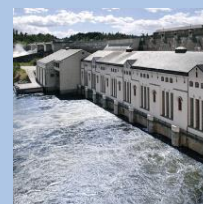
Heat

+

Klemetsrud-
anlegget



50% - Fortum
50% - City of Oslo



Production



90% - City of Oslo
10% - Fortum



Network



Fully owned by
the City of Oslo



One-time sales gain:

- EUR ~**330** million
- **0.37** EPS

Sales:

- EUR ~**950** million

EBITDA:

- EUR ~**130** million

Next steps

14 June: Oslo Bystyret approval
June-July: Regulatory clearances
Q3 2017: Closing expected

Hafslund | Markets business area

- Nearly 1.1 million electricity customers (sold volume 19.6 TWh)
- Norway's largest electricity provider, sales companies also in Sweden and Finland
- Sales NOK 7,303 million
- EBITDA NOK 585 million
- Approx 600 employees, mainly in Oslo, Kristiansand, Stockholm, Gothenburg and Helsinki
- **Hafslund Tellier** operates the customer systems, collects data and bills power and network customers
- **Hafslund Customer Centre** operates customer service for both power and network customers

Multi-brand strategy to market



Hafslund Strøm has its main market in Oslo and in the nearby counties Akershus and Østfold

Fredrikstad EnergiSalg, **Hallingkraft** and **Røyken Kraft** are regional electricity sales companies with a strong position within their respective home markets

NorgesEnergi is Norway's leading electricity provider in the low price segment with customers throughout the country

Hafslund owns 100 percent of the Swedish power sales companies **Göta Energi** and **SverigesEnergi Elförsäljning**, and the Finnish power sales company **Kotimaan Energia**

Hafslund | Heat business area and Klemetsrudanlegget (KEA)



- In 2016 **Hafslund Varme** distributed 1,705 GWh to customers in Oslo. It is the largest heat producer in Norway
- Heat production mainly based on electricity and the incineration of waste, biomass and bio-oil. In addition, energy is being recovered from the main sewer in Oslo
- The fossil fuel share of energy supply in district heating production in 2016 was 1 percent
- Approx. 90 employees
- Sales NOK 1,152 million and EBITDA NOK 437 million



- Waste-to-energy company owned 100% by the City of Oslo
- Integrated part of municipal services since 1985. Independent company since 2015
- In 2011 expanded and upgraded to 160 GWh/a electricity and 630 GWh/a heat production capacity
- Contender for carbon capture pilot programme partly funded by the Norwegian state
- Approx. 55 employees

Market conditions in Q1 2017

Nordic countries

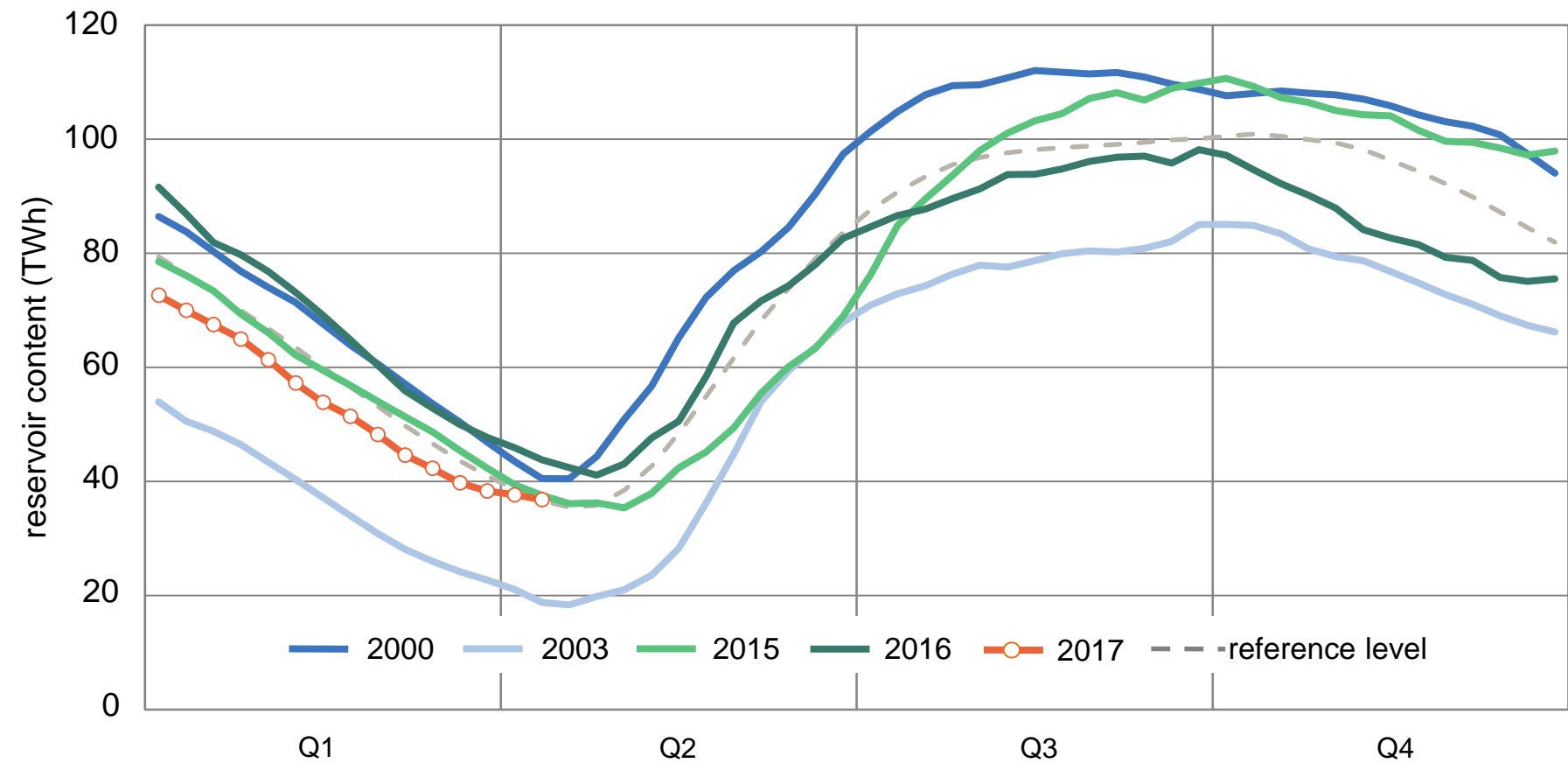
- Electricity consumption totalled 114 (117) TWh in Q1 2017. Warmer weather in Q1 2017 than in Q1 2016
- System spot price 31.1 (24.0) EUR/MWh, Finnish area price was 32.9 (30.4) EUR/MWh and Swedish (SE3) area price 31.8 (24.1) EUR/MWh
- Market price of CO₂ emission allowances (EUA) was EUR 6.5 per tonne at the beginning of the first quarter and EUR 4.7 per tonne at the end of the first quarter of 2017

Russia

- Electricity consumption was 283 (279) TWh in Q1 2017. In Fortum's operating area in the First price zone 217 (212) TWh in Q1 2017
- Average electricity spot price, excluding capacity price, increased by 2.9% in the first quarter of 2017

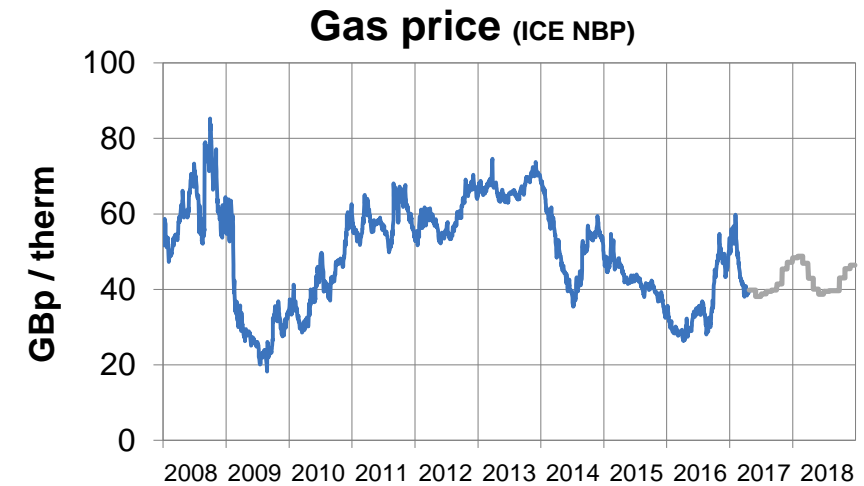
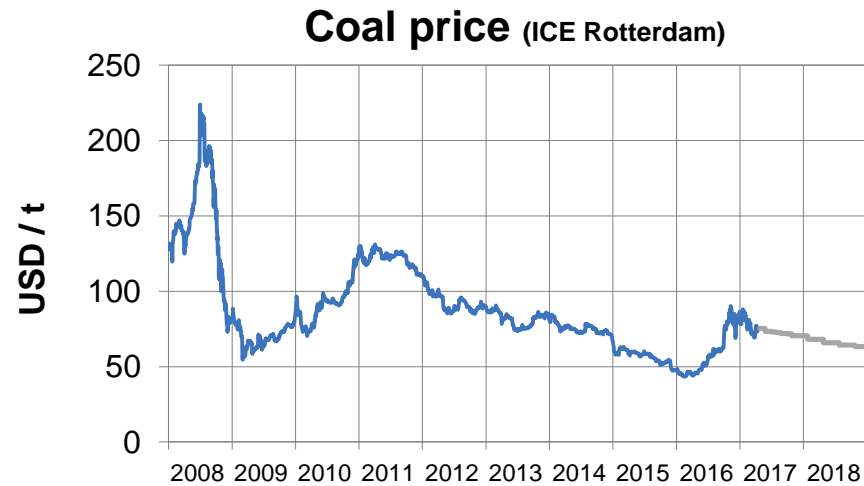
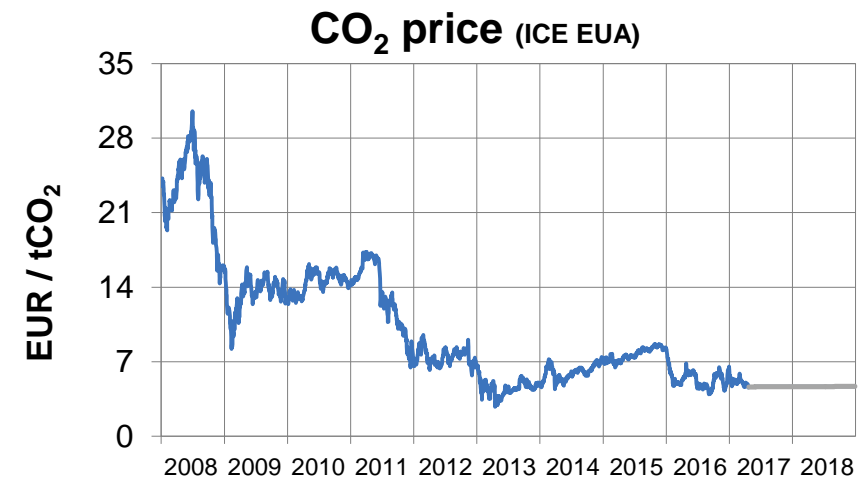
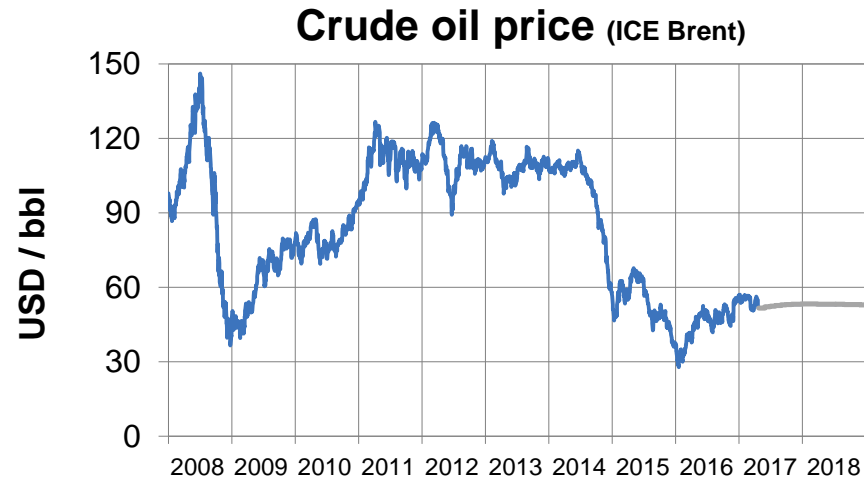


Nordic water reservoirs



Source: Nord Pool

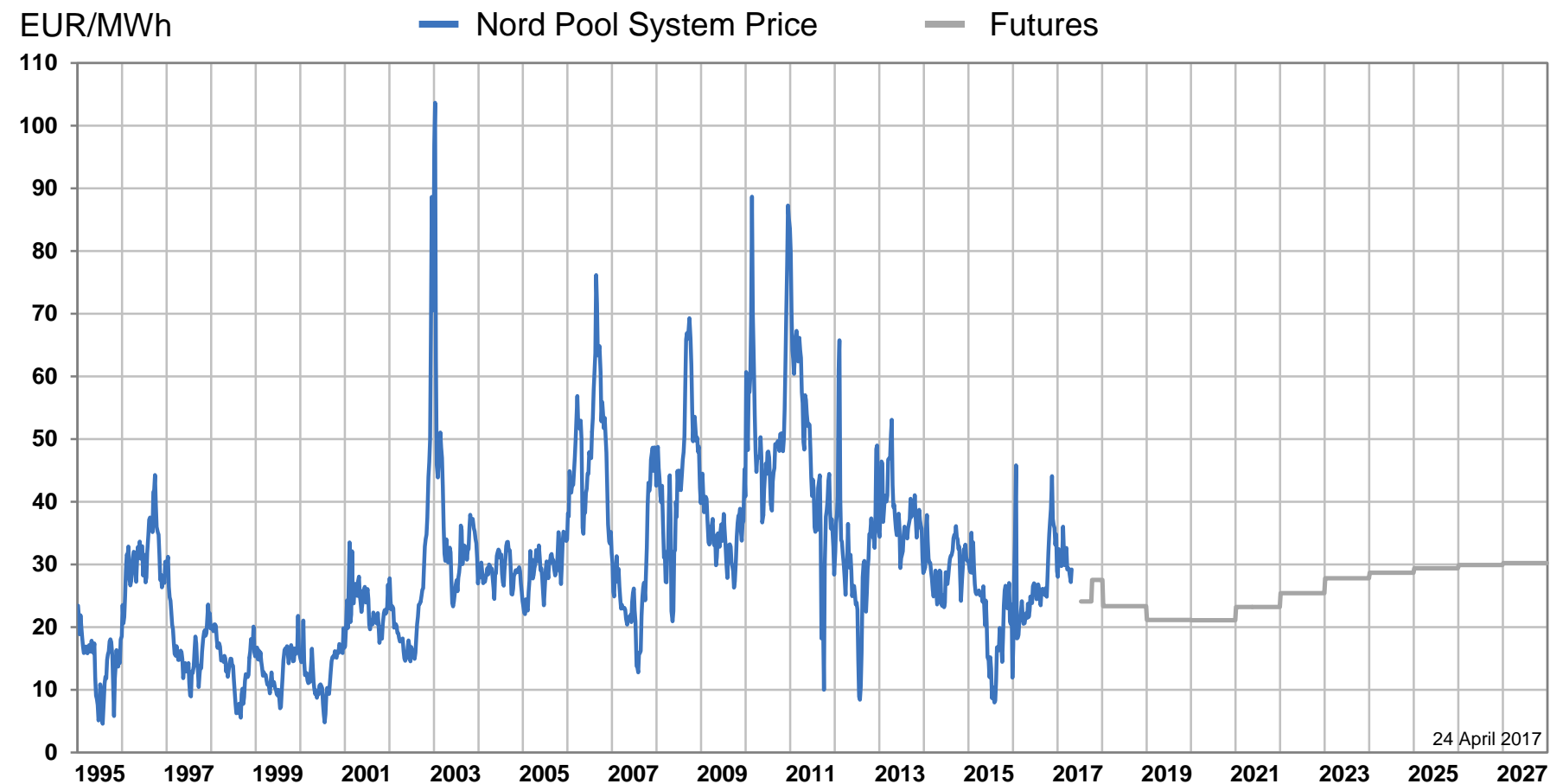
Fuel and CO₂ allowance prices



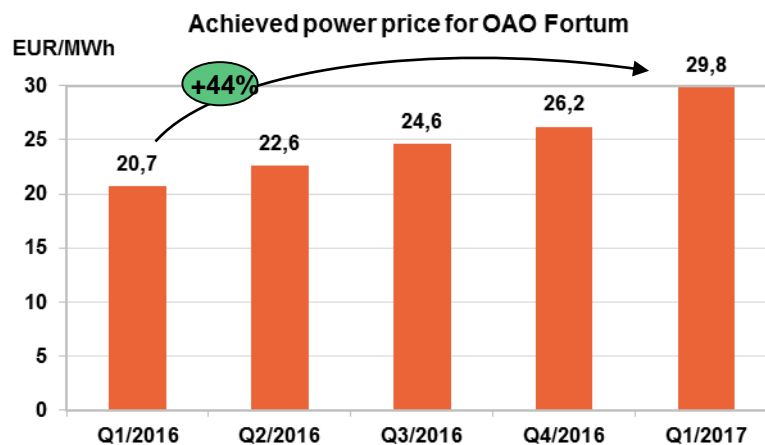
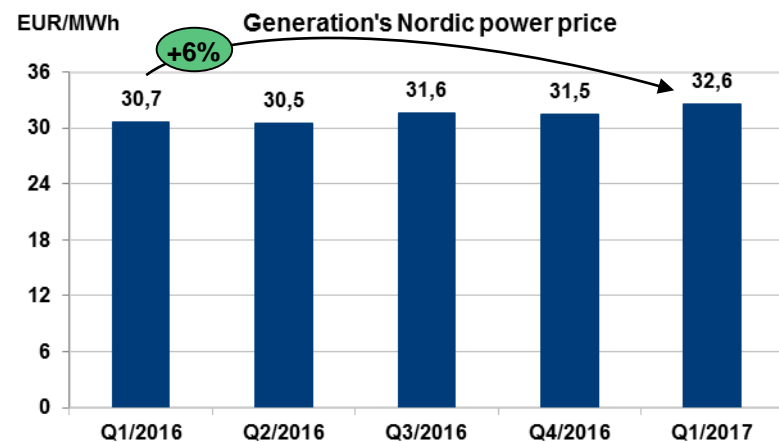
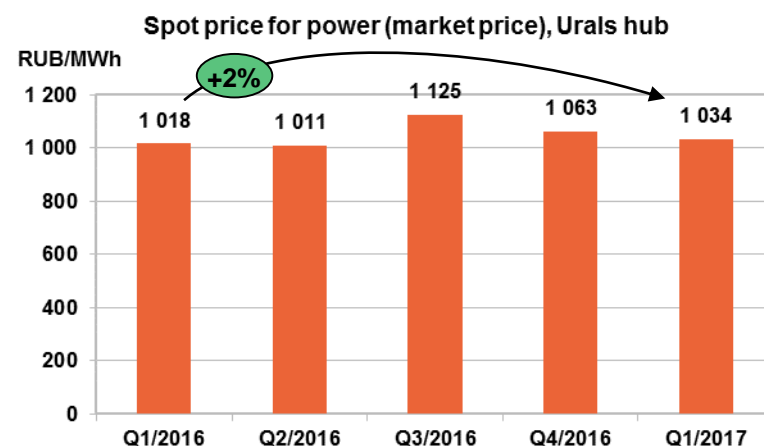
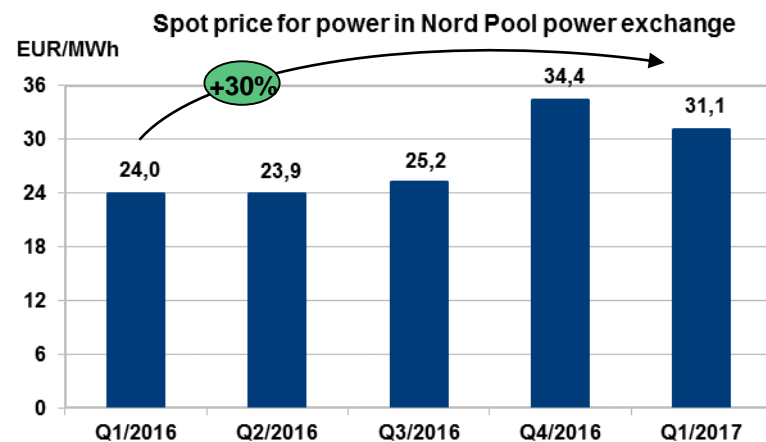
Source: ICE, Thomson Reuters

Market prices 24 April 2017; 2017-2018 future quotations

Wholesale power price



Price development in the Nordic region and Russia



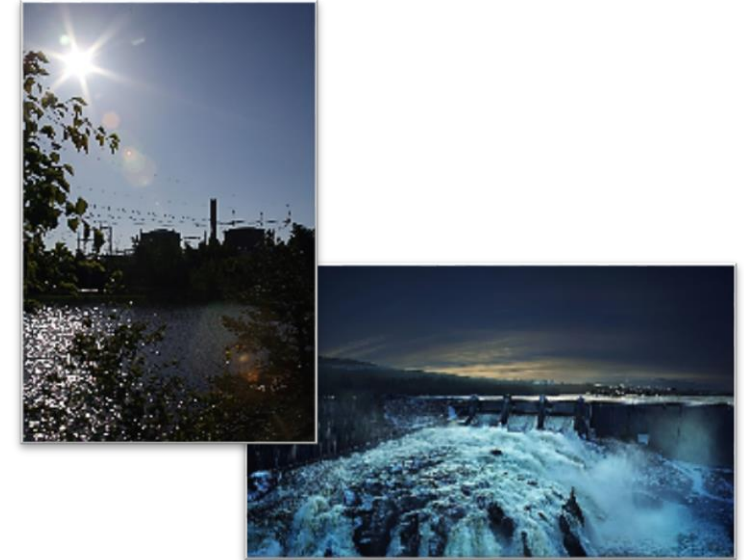
NOTE: Achieved power price in roubles increased 12%
Includes capacity income

Key figures Q1 2017

MEUR	I/17	I/16	2016	LTM
Sales	1,232	989	3,632	3,875
Comparable EBITDA	423	357	1,015	1,081
Operating profit	389	369	633	653
Comparable operating profit	313	275	644	682
Share of profits of associates and joint ventures	59	67	131	123
Profit before taxes	412	390	595	617
Earnings per share, EUR	0.38	0.37	0.56	0.57
Net cash from operating activities	282	375	621	528

Generation

- Lower hydro production volumes, Nordic hydro reservoirs 10 TWh lower than a year ago
- Higher achieved power price
- Excellent nuclear availability



MEUR	I/17	I/16	2016	LTM
Sales	474	467	1,657	1,664
Comparable EBITDA	166	182	527	511
Comparable operating profit	136	155	417	398
Comparable net assets	5,823	5,835	5,815	
Comparable RONA %			6.9	6.6
Gross investments	24	27	203	200

City Solutions

- Sales and comparable operating profit increase mainly attributable to consolidation of Ekokem
- Comparable operating profit also positively impacted by favourable fuel mix



MEUR	I/17	I/16	2016	LTM
Sales	290	228	782	844
Comparable EBITDA	94	70	186	210
Comparable operating profit	56	44	64	76
Comparable net assets	2,894	2,100	2,873	
Comparable RONA %			5.9	6.0
Gross investments	21	20	807	808

Consumer Solutions

- New division, comprises electricity sales in the Nordics, electricity sales, gas sales and distribution in Poland, as well as Nordic customer services
- Consolidation of DUON improved profitability - lower average margins in electricity products impacted the result negatively
- Announced Hafslund deal will almost double the Nordic customer base to 2.4 million customers
- Newly appointed EVP, Mikael Rönnblad, joins the company on 15 June 2017 at the latest



MEUR	I/17	I/16	2016	LTM
Sales	242	175	668	735
Comparable EBITDA	14	14	55	55
Comparable operating profit	12	14	48	46
Comparable net assets	158	126	154	
Customer base, million	1.36	1.34		
Gross investments	2	114	120	8

Russia

- The new capacity has been the key driver for earnings growth
- Sales and operating profit impacted by strengthening RUB
- Targeted operating profit level (EBIT) RUB 18.2 billion for the Russia segment was reached during the last twelve months
- In April, Fortum and RUSNANO established partnership in order to secure the possibility to capture CSA wind opportunity

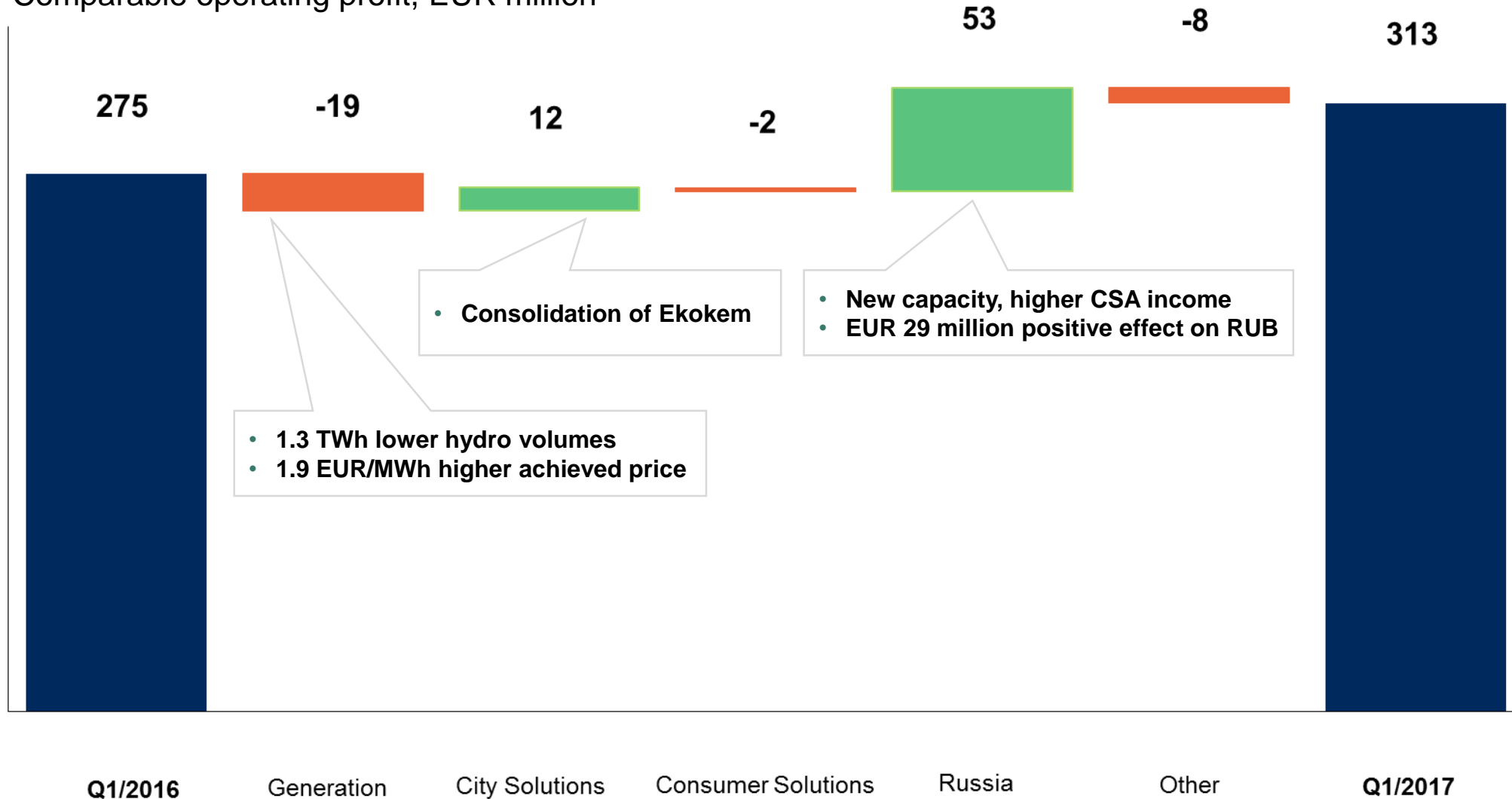


MEUR	I/17	I/16	2016	LTM
Sales	349	249	896	996
Comparable EBITDA*	168	105	312	375
Comparable operating profit	132	79	191	244
Comparable net assets	3,520	2,656	3,284	
Comparable RONA %			8.0	9.0
Gross investments	32	40	201	193

* Excluding the net release of CSA provision

Q1/2017: Lower hydro volumes – Russia results improved

Comparable operating profit, EUR million





Financials

Comparable and reported operating profit

MEUR	Comparable operating profit		Reported operating profit	
	I/17	I/16	I/17	I/16
Generation	136	155	230	211
City Solutions	56	44	59	58
Consumer Solutions	12	14	-9	5
Russia	132	79	132	111
Other	-24	-16	-23	-15
Total	313	275	389	369

Fortum's operating profit for the first quarter was impacted by items affecting comparability, including sales gains, and the IFRS accounting treatment (IAS 39) of derivatives mainly used for hedging, as well as nuclear fund adjustments, amounting to EUR 76 (94) million.

Income statement

MEUR	I/17	I/16	2016	LTM
Sales	1,232	989	3,632	3,875
Other income and expenses	-919	-714	-2,989	-3,194
Comparable operating profit	313	275	644	682
Items affecting comparability	76	94	-11	-29
Operating profit	389	369	633	653
Share of profit of associates and joint ventures	59	67	131	123
Financial expenses, net	-36	-47	-169	-158
Profit before taxes	412	390	595	617
Income tax expense	-72	-59	-90	-103
Net profit	340	331	504	513
EPS (EUR)	0.38	0.37	0.56	0.57

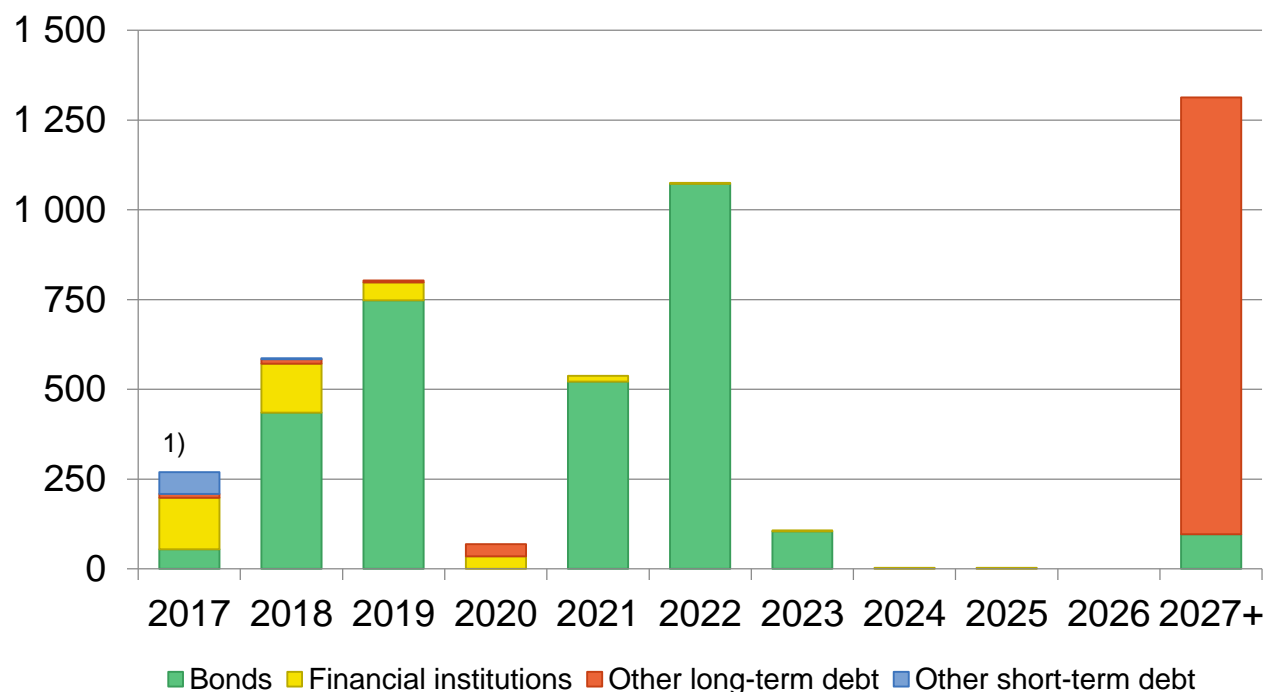
Cash flow statement

MEUR	I/17	I/16	2016	LTM
Cash from operating activities:				
Comparable EBITDA	423	357	1,015	1,081
Realised FX gains/losses	-58	128	110	-76
Paid net financial costs, income taxes and other	-95	-139	-402	-358
Change in working capital	12	29	-102	-119
Cash from operating activities	282	375	621	528
Cash used in investing activities:				
Paid capital expenditures	-180	-113	-599	-666
Acquisitions of shares	-26	-104	-695	-617
Change in cash collaterals	182	-176	-359	-1
Other investing activities	23	14	-48	-39
Total investing activities	-1	-379	-1,701	-1,323
Cash flow before financing activities	280	-4	-1,080	-796

Debt portfolio and average interest rate on the balance sheet date

31 March 2017

Maturity profile



- Total interest-bearing debt EUR 4,875 million
 - Average interest 3.6% (2016: 3.5%)
 - Portfolio mainly in EUR and SEK with average interest cost 2.0% (2016: 2.1%)
 - EUR 858 million (2016: 805) swapped to RUB, average interest cost including cost for hedging 11.0% (2016: 11.4%)

¹⁾ In addition Fortum has received EUR 109 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	1,081	1,015	
Interest-bearing net debt	-347	-48	
Comparable net debt/EBITDA	-0.3	0.0	Around 2.5
ROCE % Return on capital employed	4.0	4.0	At least 10%

Liquid funds totalled EUR 5.2 billion
Committed credit lines total EUR 2.0 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 55% hedged at EUR 29/MWh
- 2018 approximately 45% hedged at EUR 27/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

