



Interim Report January-March 2019

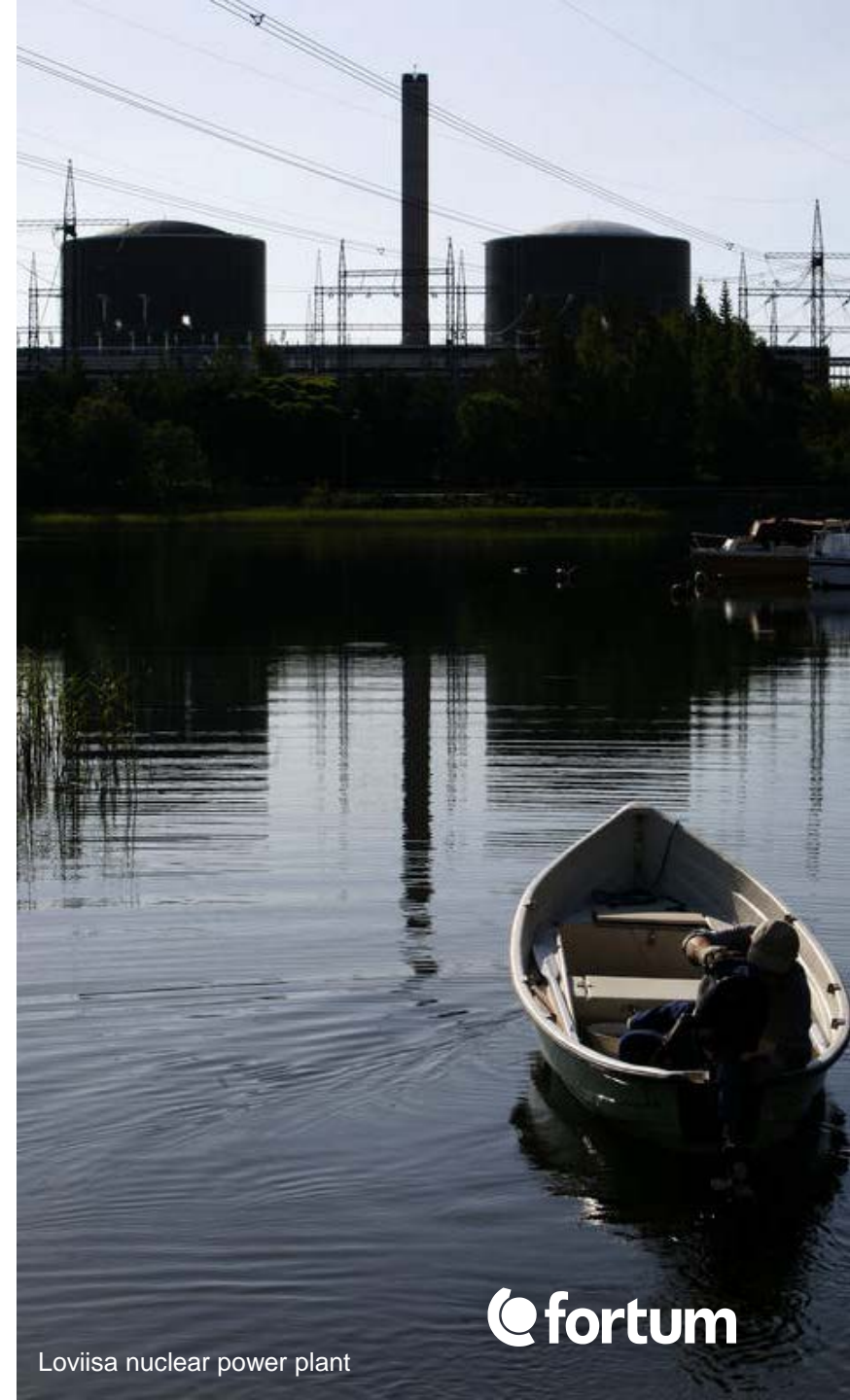
Fortum Corporation

26 April 2019



Q1 2019 – Result impacted by higher power prices and lower hydro volumes

- Nordic power price up +22% Y/Y
- Reservoir levels below long-term average
- Volatile commodity and CO₂ prices
- Comparable EBITDA at EUR 545 million, +1%
- Comparable operating profit at EUR 408 million, +1%
- EPS at EUR 0.38 (0.43)
 - Items affecting comparability EUR -0.04 (0.07)
- Strong cash flow from operating activities totalled EUR 751 (273) million – change in settlement for futures
- Discussions restarted with Uniper
- Strategy implementation – operational excellence in focus



Q1 2019 highlights

Fortum wins right to build 250 MW solar power plant in Rajasthan, India

Launch of world's first market place 'Puro' for CO₂ removals

Kalax wind project approved within Finnish national scheme

Bonds issued EUR 2.5 billion

New technology to boost EV battery recycling

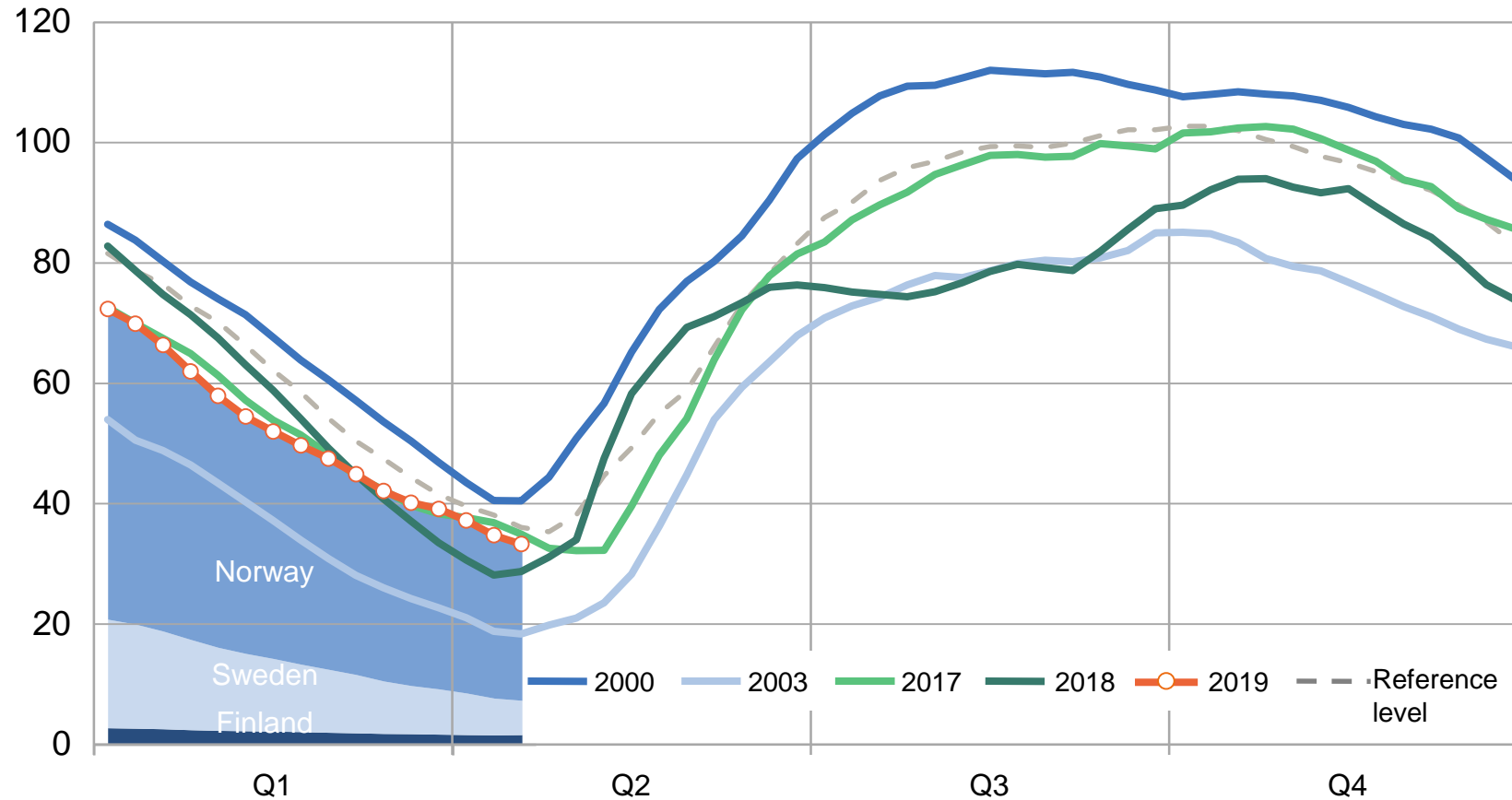
OL3 received its operating license

Russian Fortum-Vostok JV as guaranteeing electricity supplier to 1.5m retail customers

Commercial operation of 50 MW wind at Ulyanovsk in Russia started

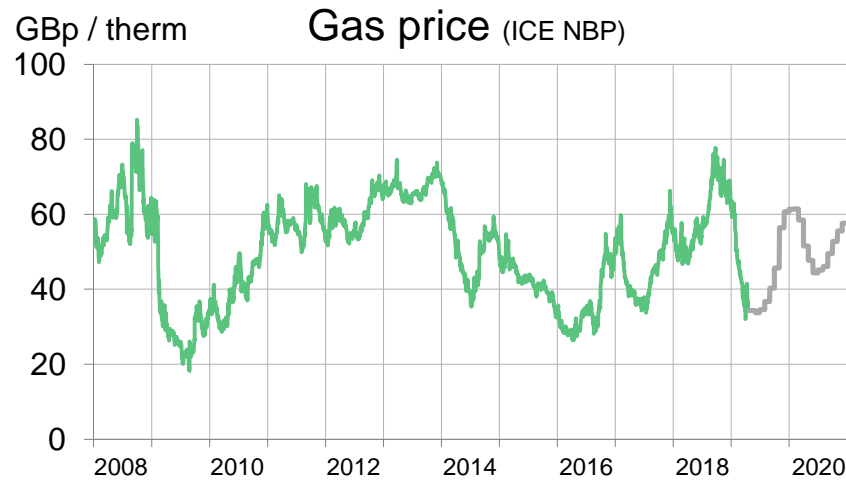
Nordic hydro reservoir levels improved during Q1

Reservoir content (TWh)



- Q1 started out cold and dry but turned wetter and mild from February
- Mild and windy weather resulted in clearly lower than normal hydropower generation during Q1, especially in Norway
- Hydro reservoirs moved closer to normal during the quarter

Fuel prices in Q1 on a downward trend as LNG flows into Europe



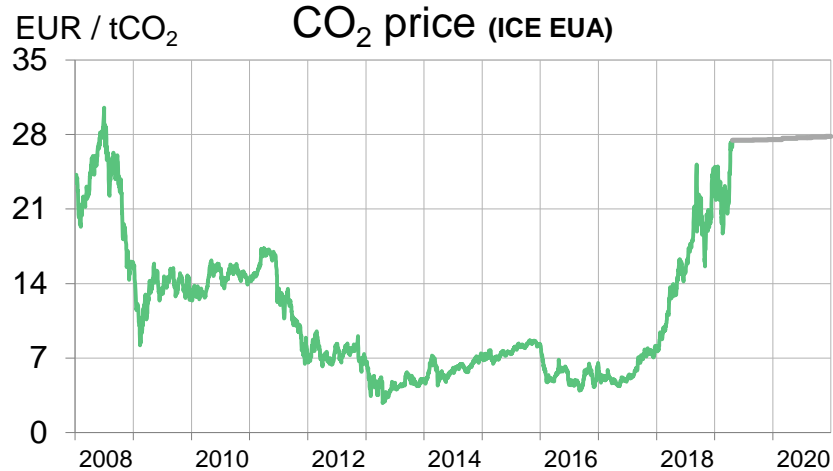
The global coal market during Q1 turned bearish due to changed Chinese import policy and international coal prices declined while China's domestic prices remained buoyant

- The lack of support from China exposed European coal to rapidly weakening European gas prices, with major European coal-for-power markets clearly declining in Q1 Y/Y
- Further, higher coal taxes and nuclear power output in South Korea and Japan also contributed to the negative development
- In April, coal prices in Europe bottomed out followed by a limited rebound as coal flows began diverting from Europe to other markets

In the European gas market LNG import volumes into Europe doubled resulting in significant decline of gas prices in Q1

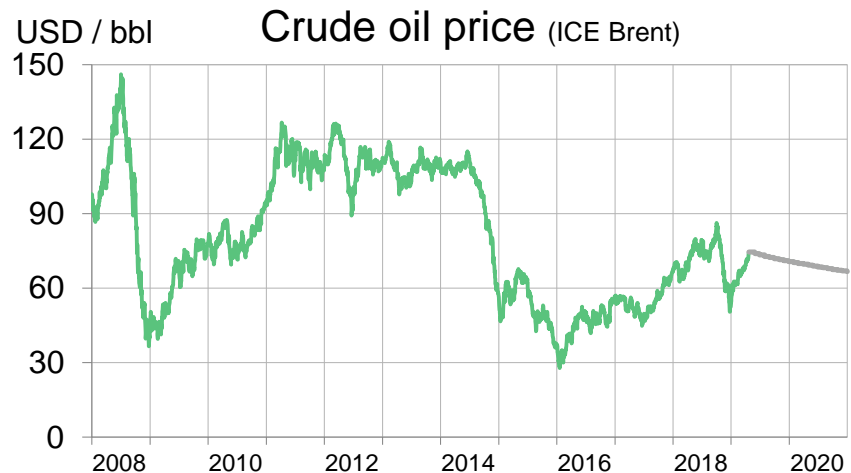
- The EU import surge resulted from stalled demand growth in the East Asian LNG markets
- As a result of strong LNG inflows, European gas storages ended Q1 with high stocks and European gas became very competitive against coal in power generation, a situation further supported by the resilient CO₂ price
- In April, the gas market has seen a limited rebound, but fundamentals continue to be weak

Volatile CO₂ prices in Q1 mainly due to Brexit uncertainty – rebound in April



The carbon market traded lower during Q1 on modest EUA demand and falling gas prices

- The EUA market was impacted by policy uncertainties in Q1, mainly the threat of a sudden UK exit from the EU carbon market
- The market was very volatile, with coal-to-gas switch fundamentals providing one relevant price anchor
- In April, the CO₂ price hit an 11 year-high at EUR 27.46 due to long extension to UK's exit from the EU



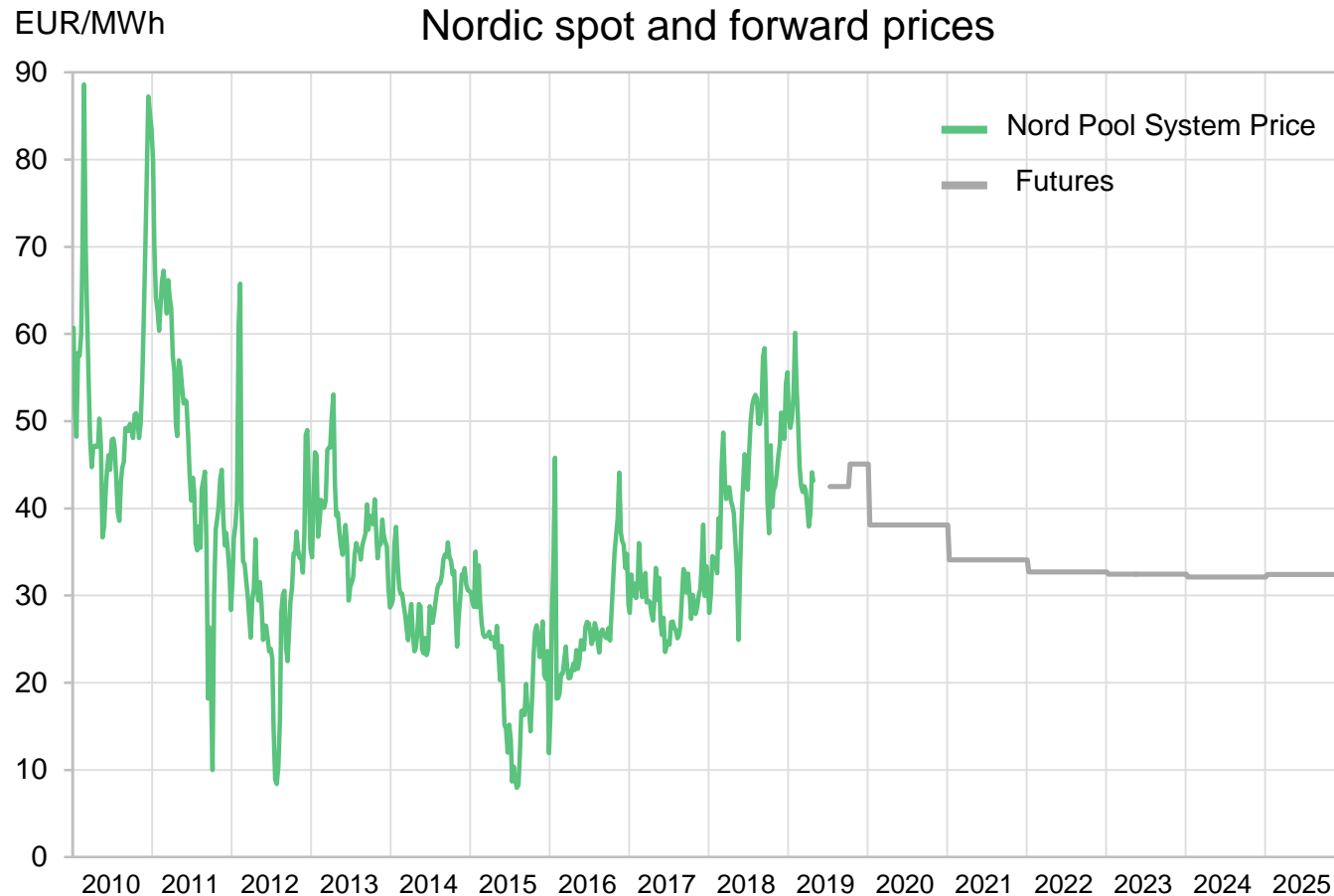
Crude oil markets saw a strong recovery in Q1 compared to the rest of the generally weak fuel prices

- Oil prices strengthened in Q1 as OPEC (mainly Saudi Arabia) over-delivered on the 2018 supply cut agreement
- The US imposed sanctions on Iran during 2018, and more recently on Venezuela in Q1, led to a big involuntary drop of crude output, tightening the global oil market
- In April, oil continued to increase supported by Chinese macroeconomic data indicating continued demand strength

Source: ICE, Thomson Reuters

Market prices 23 April 2019; 2019-2020 future quotations

Nordic Q1 2019 power price clearly higher compared to Q1 2018



- During Q1, the average Nord Pool system spot price was 46.9 EUR/MWh (38.6)
- The average area price was:
 - 47.5 EUR/MWh (42.0) in Finland
 - 46.5 EUR/MWh (39.0) in Sweden (SE3, Stockholm)
- The higher spot market is clearly attributed to the increased marginal cost for coal-fired generation, mainly driven by clearly higher CO₂ price compared to Q1 2018
- Mild, wet and windy weather in combination with a decreasing trend for coal and gas prices lowered the spot price towards the end of the quarter

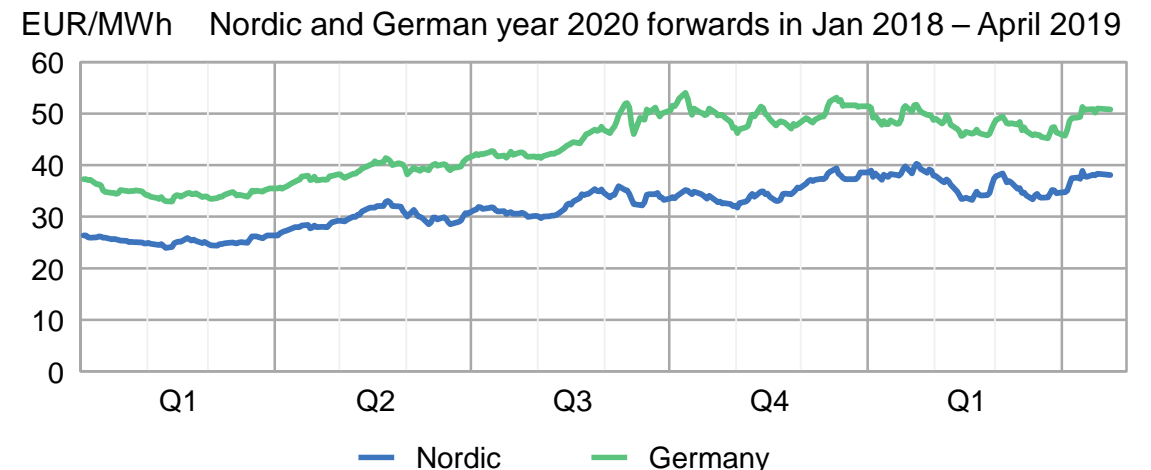
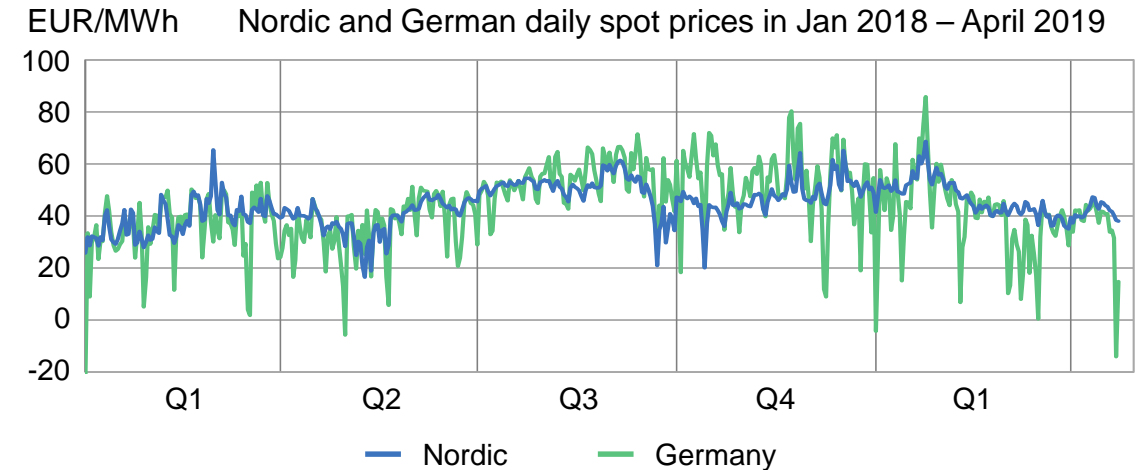
German – Nordic price spread

SPOT PRICE

- During Q1 2019, the average spread was -6.0 EUR/MWh with the Nordic system average price at 46.9 EUR/MWh and German price at 40.9 EUR/MWh
- Weak demand and very high wind power output in Germany lowered the German spot price, especially during the first half of March
- During 2012-2018, the average realised German-Nordic spot spread was 4.6 EUR/MWh, fluctuating on an annual level in the range of -1-15 EUR/MWh
- The realised German-Nordic spread is impacted by realised supply and demand fundamentals in Continental Europe and the Nordics

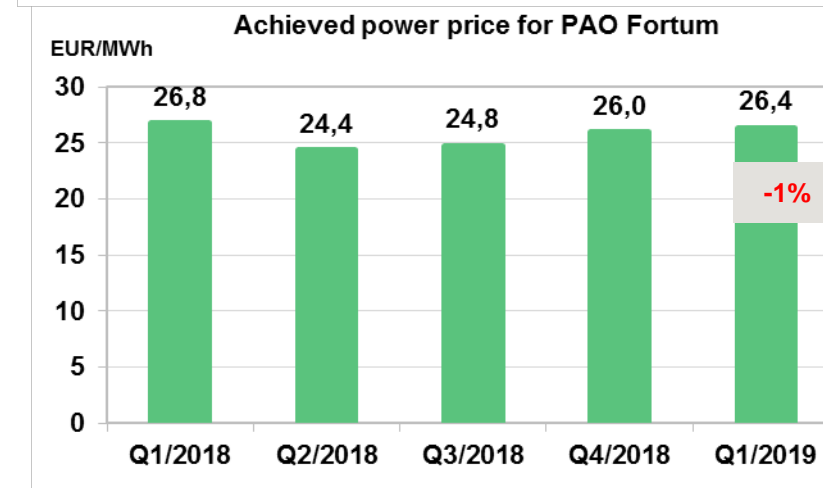
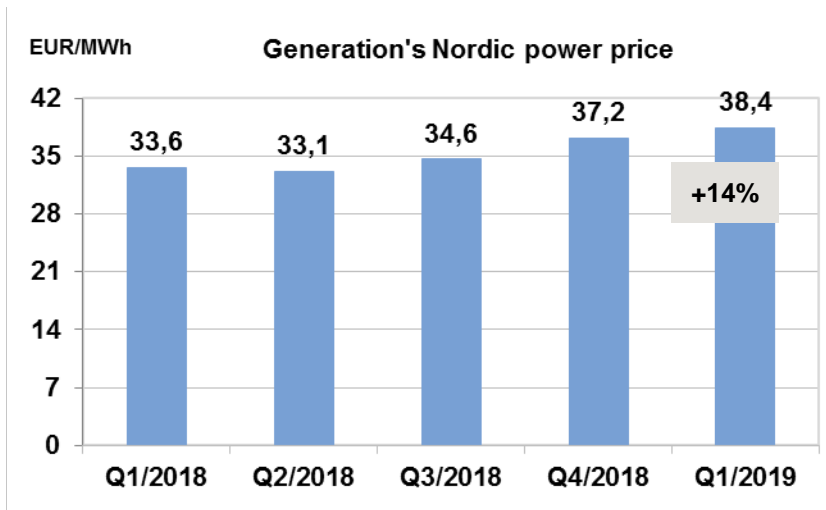
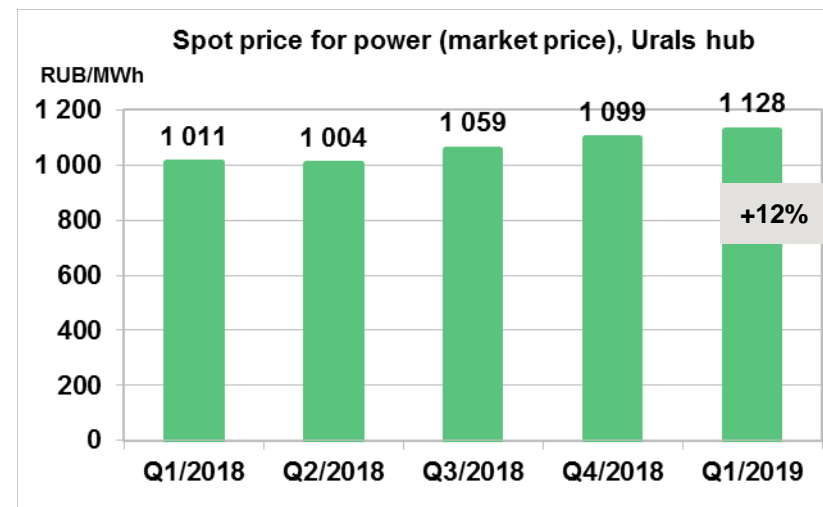
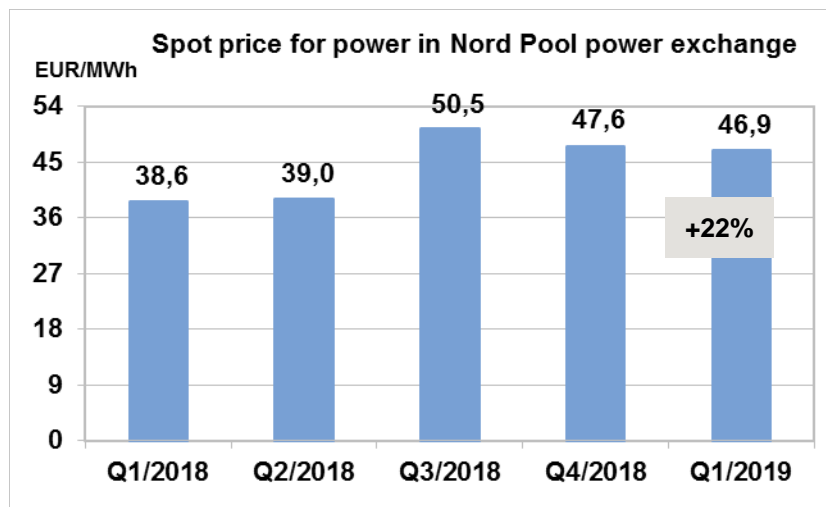
FORWARD PRICE

- During Q1 2019, the spread for 2020 delivery traded in the range 9.9-12.9 EUR/MWh, average at 11.6 EUR/MWh
- Expected supply/demand balance in the Nordics and in Continental Europe has an effect on the spread: investments in new interconnector capacity, growth of demand and new renewable capacity as well as amount of exiting nuclear and coal capacity all play a role



Including 23 April 2019
Source: Nord Pool, Bloomberg

Higher Nordic power prices, Fortum achieved power price up 14% in Q1 – Russian achieved price impacted by weaker rouble



Changes refer to year-on-year difference (Q1 2019 versus Q1 2018)

NOTE: Achieved power price (includes capacity payments) in roubles increased by 7%

Generation

- Higher comparable operating profit in Q1, +1%
 - Higher achieved power prices, +4.8 €/MWh, +14%
 - Lower hydro power generation, 4.8 TWh (6.4), -25%
- Good operational performance
 - Nuclear load factor at a very good level

MEUR	Q1 2019	Q1 2018	2018	LTM
Sales	601	498	1,842	1,945
Comparable EBITDA	259	253	763	769
Comparable operating profit	223	220	628	631
Comparable net assets	6,228	5,835	6,485	
Comparable RONA %			10.8	11.0
Gross investments	38	47	262	253



Montta, Finland

City Solutions

- Higher comparable operating profit in Q1, +5%
 - Improved results in the recycling and waste business
 - Higher power prices
 - Lower heat volumes, -10%, due to warmer weather
- Hafslund synergies are estimated to gradually start materialising from 2019 onwards with targeted annual synergies of EUR 5-10 million expected to be achieved by the end of 2020

MEUR	Q1 2019	Q1 2018	2018	LTM
Sales	405	381	1,110	1,134
Comparable EBITDA	137	131	310	316
Comparable operating profit	92	88	135	139
Comparable net assets	3,845	3,867	3,794	
Comparable RONA %			5.5	5.5
Gross investments	72	29	242	285



Consumer Solutions

- Higher sales, but lower sales volumes in Q1
 - Continued tough competition with high customer churn in the Nordics
- Comparable operating profit in Q1, +53%
 - Higher sales margins due to favourable market conditions, more than half of result improvement temporary
- Hafslund cost synergies expected to gradually start materialising in 2019 with targeted annual synergies of appr. EUR 10 million to be achieved by the end of 2020

MEUR	Q1 2019	Q1 2018	2018	LTM
Sales	669	547	1,759	1,881
Comparable EBITDA	41	31	110	120
Comparable operating profit	26	17	53	62
Comparable net assets	647	792	648	
Customer base, million	2.46	2.49	2.47	
Gross investments	13	10	47	50



Russia

- Lower comparable operating profit in Q1, -5%
 - Fx impact EUR -8 million
 - Transfer of the heat distribution business to the Yustek JV
 - Higher CSA payments (Nyagan 2) and higher electricity margin
- In 2018, the businesses transferred to the Yustek joint venture had a marginal effect on the comparable operating profit
- In 2019, no new units will receive higher CSA payments

MEUR	Q1 2019	Q1 2018	2018	LTM
Sales	298	336	1,069	1,031
Comparable EBITDA	135	142	417	410
Comparable operating profit	99	104	271	266
Comparable net assets	3,030	3,091	2,789	
Comparable RONA %			10.3	10.4
Gross investments	5	16	117	106

CSA=Capacity Supply Agreements



Chelyabinsk, Russia

Q1 2019 – Higher achieved power price and lower hydro volumes

Comparable operating profit

EUR
million



Key financials

MEUR	Q1 2019	Q1 2018	2018	LTM
Sales	1,690	1,585	5,242	5,347
Comparable EBITDA	545	538	1,523	1,530
Comparable operating profit	408	405	987	990
Operating profit	358	482	1,138	1,014
Share of profits of associates and joint ventures	111	47	38	102
Profit before income taxes	424	493	1,040	971
Earnings per share, EUR	0.38	0.43	0.95	0.90
Net cash from operating activities	751	273	804	1,282

- Sales and comparable operating profit driven by higher power prices
- Share of profits from associates increased mainly due to Uniper, EUR 49 million
- EPS excluding items affecting comparability of EUR 0.42 (0.36)
- Strong cash flow due to change in settlements for futures and working capital

Income statement

MEUR	Q1 2019	Q1 2018	2018	LTM
Sales	1,690	1,585	5,242	5,347
Other income	21	24	130	127
Materials and services	-917	-825	-2,795	-2,887
Employee benefits	-122	-113	-459	-468
Depreciations and amortisation	-137	-133	-536	-540
Other expenses	-127	-133	-594	-588
Comparable operating profit	408	405	987	990
Items affecting comparability	-50	77	151	24
Operating profit	358	482	1,138	1,014
Share of profits/loss of associates and joint ventures	111	47	38	102
Finance costs - net	-46	-36	-136	-146
Profit before income tax	424	493	1,040	971
Income tax expense	-65	-94	-181	-152
Profit for the period	359	400	858	817

- Sales and comparable operating profit improved mainly due to higher power prices
- Share of profits from associates increased mainly due to share of profits from Uniper, EUR 49 million
- Finance costs slightly higher due to repayment of bridge loan of EUR 1.75 billion

Cash flow statement

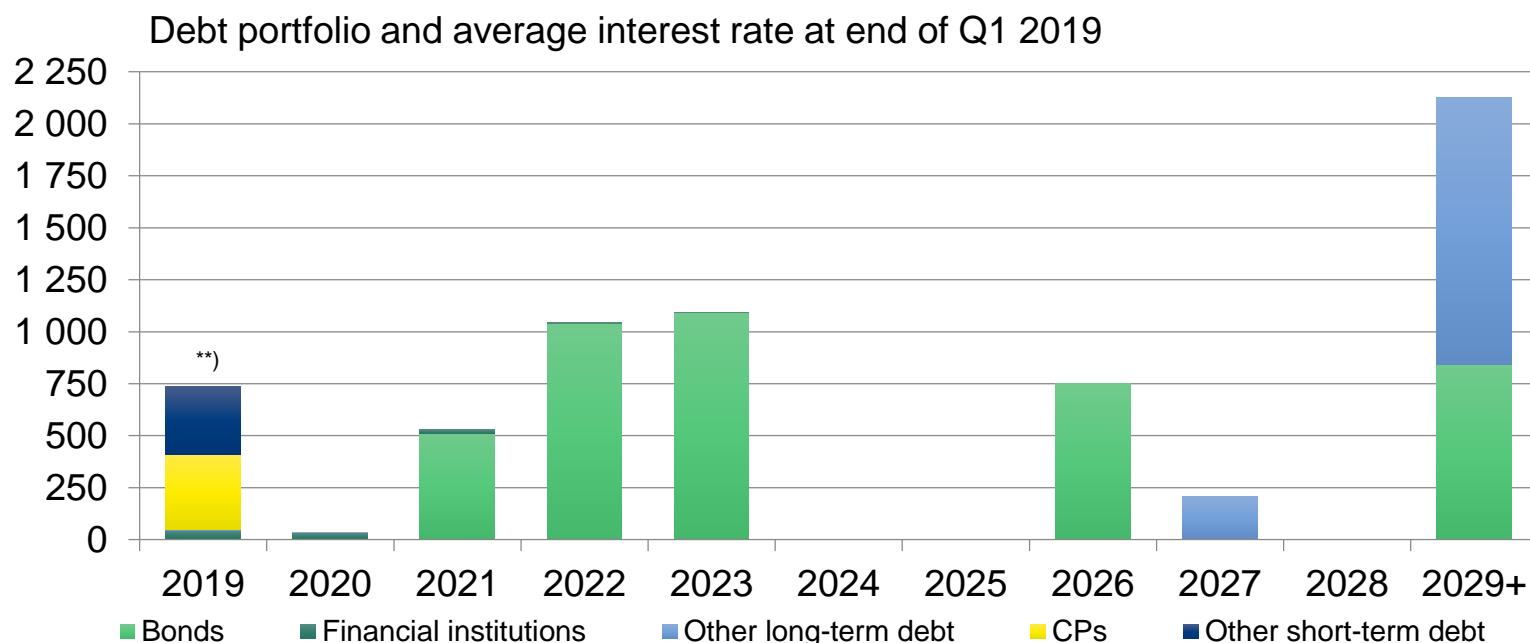
MEUR	Q1 2019	Q1 2018	2018	LTM
Comparable EBITDA	545	538	1,523	1,530
Realised FX gains/losses	-5	42	231	184
Paid net financial costs, income taxes and other	-59	-107	-280	-232
Change settlements for futures	292	-91	-524	-141
Change in working capital	-22	-109	-146	-59
Net cash from operating activities	751	273	804	1,282
Capital expenditures	-150	-133	-579	-596
Acquisitions of shares	-12	-18	-4,088	-4,082
Divestments of shares	8	0	259	267
Change in cash collaterals and restricted cash	310	-63	-36	337
Other investing activities	11	1	46	56
Cash flow from investing activities	167	-213	-4,398	-4,018
Cash flow before financing activities	918	60	-3,594	-2,736
Paid dividends			-977	-977

- Strong net cash from operating activities mainly due to EUR 292 million from change in settlement for futures on Nasdaq Commodities
- Net cash from investing activities positively impacted by EUR 310 million due to new non-cash collateral agreement to release pledged cash from the Nordic power exchange
- Dividend of EUR 977 million paid on 4 April, not impacting Q1 2019

Ongoing actions to deleverage aims to optimise cash flow and maintain financial flexibility

	LTM	2018	TARGET
Comparable EBITDA, MEUR	1,530	1,523	
Interest-bearing net debt, MEUR	4,995	5,509	
Comparable net debt/EBITDA ratio ^{*)}	3.3x	3.6x	Around 2.5x
Return on capital employed (ROCE), %	6.5	6.7	At least 10%

- Liquid funds of EUR 1.7 billion
- Committed credit lines of EUR 1.8 billion
- EUR 2.5 billion of bonds issued in three tranches



- Total loans and borrowings of EUR 6,591 million
 - Average interest 2.2% (2018: 2.4%)
 - Portfolio mainly in EUR and SEK with average interest cost 1.4% (2018: 1.7%)
 - EUR 750 million (2018: 686) swapped to RUB, average interest cost including cost for hedging 8.5% (2018: 8.3%)
 - Other short-term debt impacted by the new non-cash collateral arrangement for the Nordic power exchange

Outlook

Demand growth

Electricity demand in the Nordics is expected to grow by ~0.5% on average

Hedging^{*)}

For the remainder of 2019: ~75% hedged at EUR 32 per MWh

For 2020: ~55% hedged at EUR 31 per MWh (Q4: 45% at EUR 29)

2019 Estimated annual capital expenditure, including maintenance and excluding acquisitions

EUR 600-650 million

Targeted cost synergies of Hafslund transaction

EUR 15-20 million gradually materialising 2019-2020:

City Solutions:
EUR 5-10 million

Consumer Solutions:
~EUR 10 million

Taxation

Effective tax rate for 2019 for the Group 19-21%

In Sweden nuclear capacity tax abolished from 2018 and hydro assets' real estate tax rate to decrease over a four-year period (2017-2020)

^{*)} from the beginning of 2019 the reported hedge prices also include the effect of proxy hedging. This change had a minor effect on the prices. There is no change to the calculation method of the hedge ratio.

Q&A



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please visit www.fortum.com/investors

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