Interim Report January-June 2019

Fortum Corporation

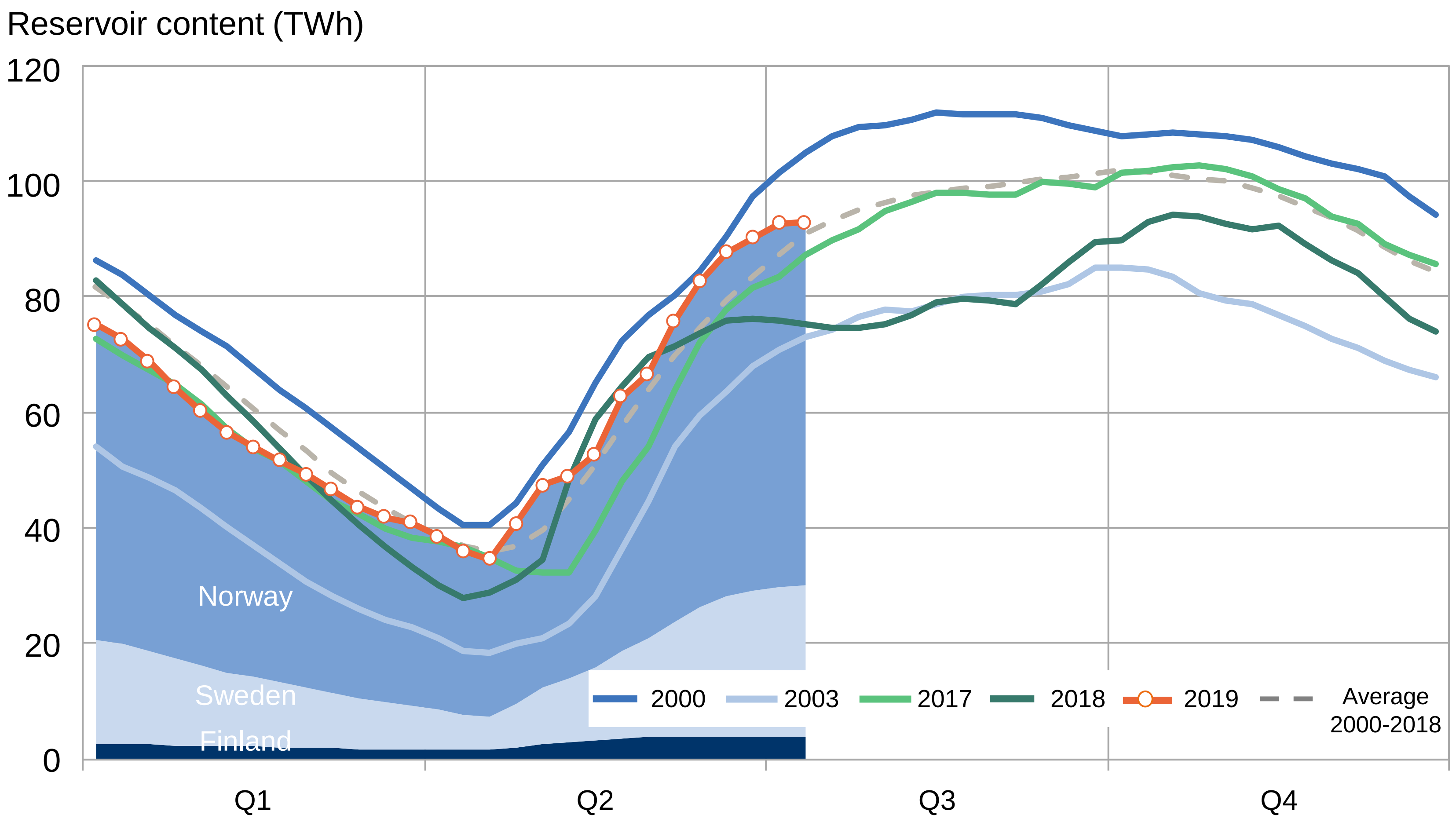
19 July 2019

Improved results in all business segments and strong cash flow

- Nordic spot power price down, -9% Y/Y
  - Achieved power price at EUR 35.0, up 1.9 EUR/MWh
- Reservoir levels above long-term average
- Comparable EBITDA at EUR 372 million, +32%
- Comparable operating profit at EUR 232 million, +52%
- Share of profits of associates and JVs at EUR 461 (24) million
- EPS at EUR 0.69 (0.24)
  - Items affecting comparability EUR -0.05 (0.11)
  - Uniper contribution EUR 0.45 (-)
- Strong cash flow from operating activities at EUR 740 (361) million
- Net debt/EBITDA at 3.3x (LTM)
- The purchase price allocation of the Uniper investment finalised

Dejefors, Sweden

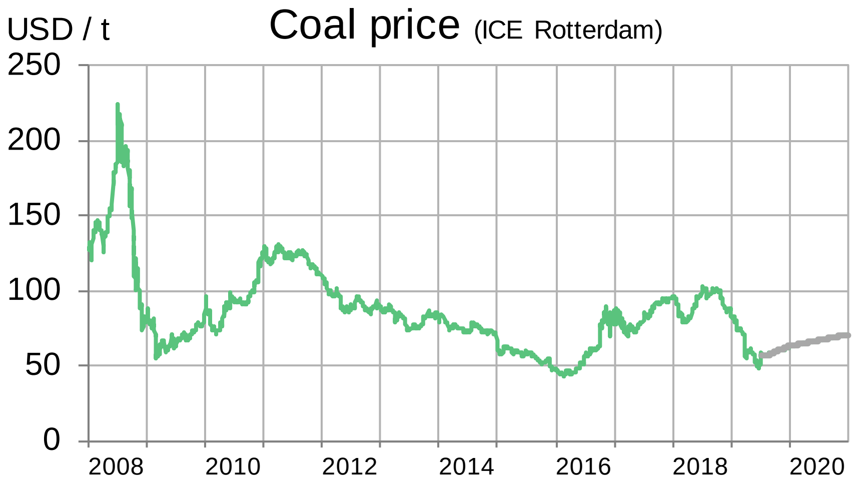
Nordic water reservoirs above the historical average level

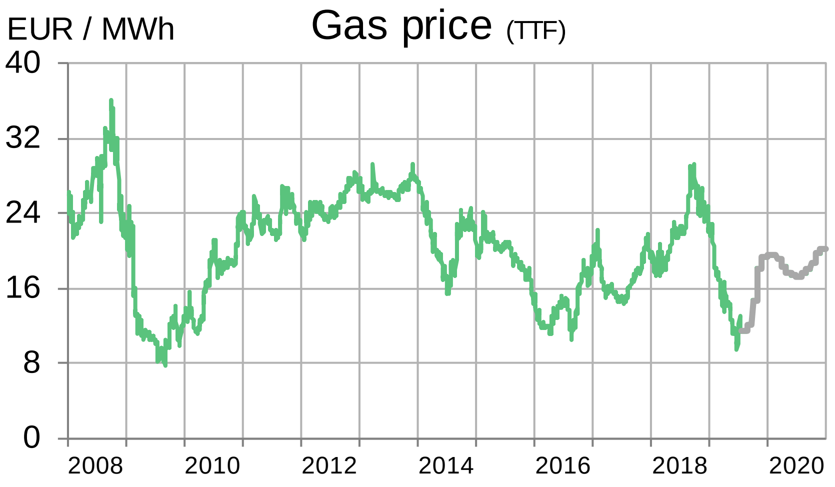


- Heavy rains in May and June resulted in high inflows
- As a consequence, water reservoirs increased above average during the quarter
- Reservoirs currently only slightly above average due to drier weather in early July

Source: Nord Pool, 2019 by country

Weaker fuel prices and increased coal-to-gas switching in Q2





The coal market loosened during Q2: Chinese demand growth faltered due to strong hydro power production and macroeconomic slowdown while the competitiveness of gas power generation in Europe was record-strong.

- Coal-for-power demand growth in China has essentially paused and industrial production Y/Y growth was at 5%, weakest since 2002. Chinese domestic coal production has also shown signs of rebound.
- Gas price collapse contributed to a 20% Y/Y decrease in coal-for-power demand in EU28 in Q2 2019, raising inventory levels in Europe and putting downward pressure on coal prices.

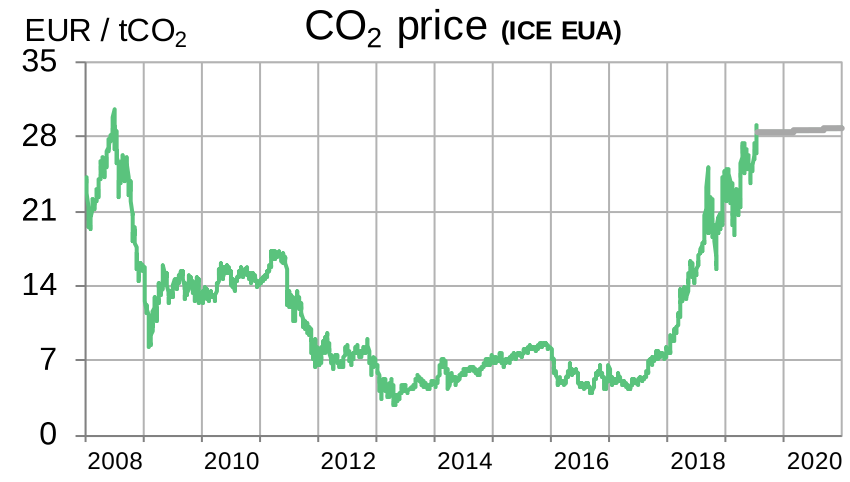
In the European gas market LNG import volumes into Europe continued high, albeit easing slightly towards the end of Q2, but keeping TTF front prices close to 10-year low.

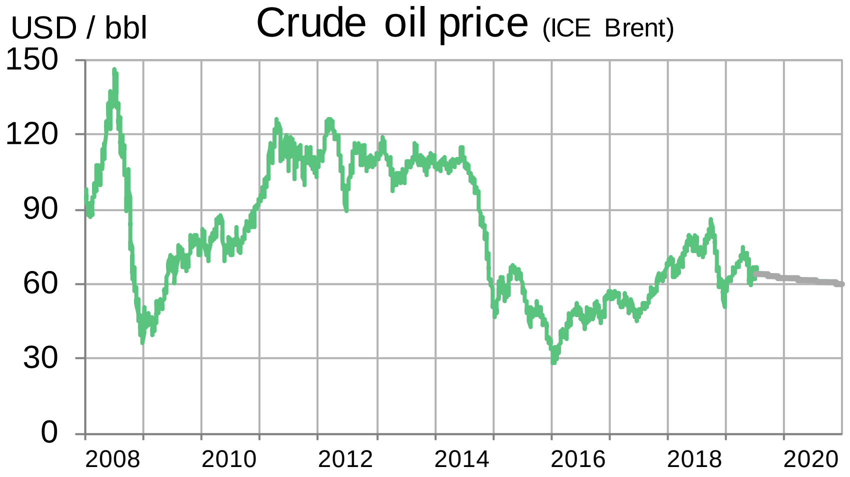
- Increased LNG imports were largely injected into European storages, causing a storage overhang. Northwest European storages were approximately 80% filled by the end of Q2 2019.
- The EU import surge resulted from stalled demand growth in East Asian LNG markets, coupled with strong supply growth in the US, Russia, and Australia.

Source: ICE, Thomson Reuters

Market prices 16 July 2019; 2019-2020 future quotations

CO_2 price continued strong in Q2





The CO_2 market recovered during Q2 as implied switch levels were raised by weak far-dated coal prices. Moreover, the delay of Brexit deadline to end-October alleviated (not eliminated) the bearish risk of a no-deal Brexit.

- EUAs have been strong despite plummeting front gas prices. This has led to record-high competitiveness of gas in power generation. Gas also remains relatively strong for the winter and next year in general.
- The EUA market is fundamentally tight due to the impact of the MSR, which began operating in January 2019.

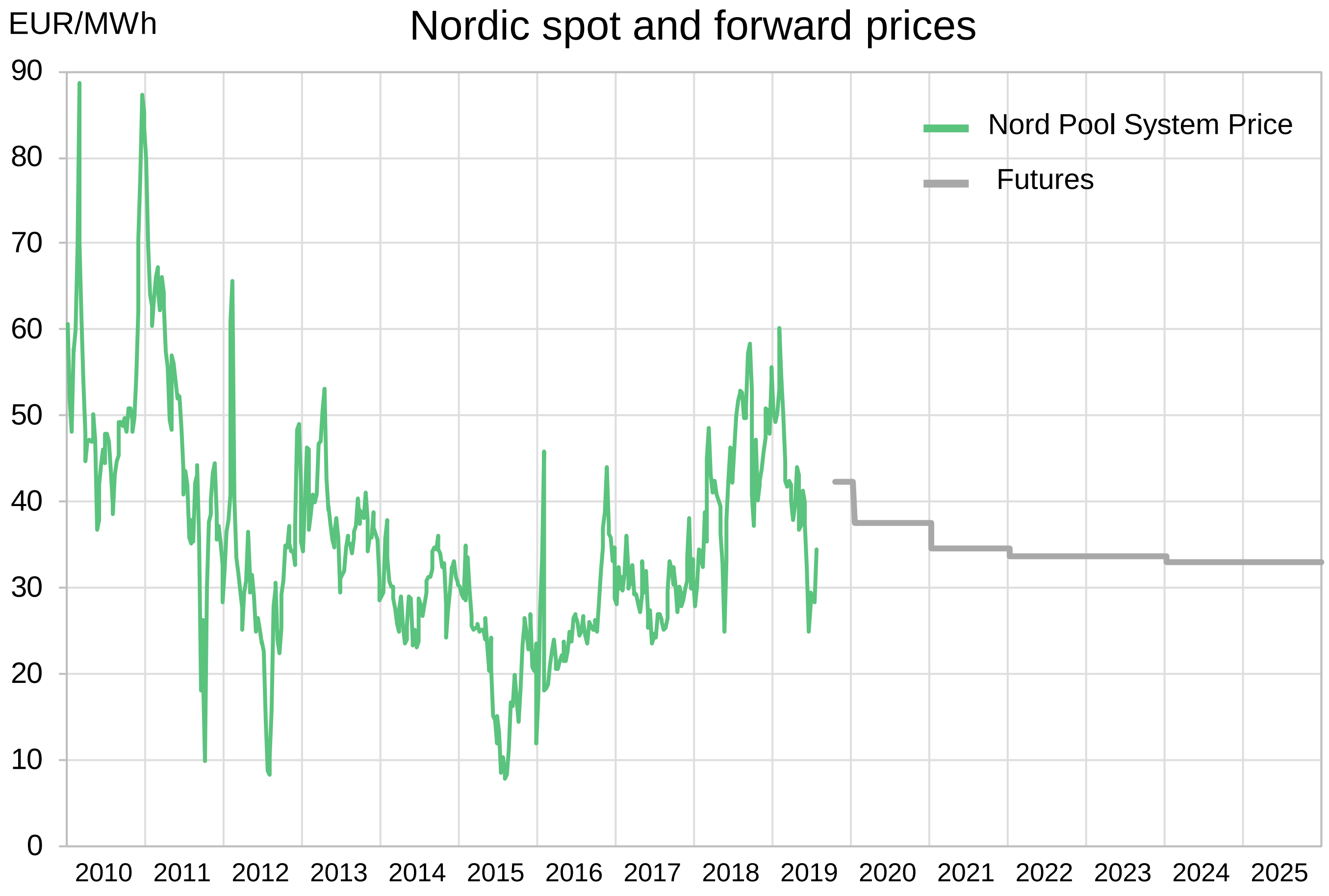
Crude oil was volatile in Q2, initially strong on OPEC supply cuts but later selling on a sentiment of reducing risk due to global growth concerns.

- Oil prices weakened in Q2 as worries over the global economy offset the OPEC supply shortfalls.
- End of Q2 oil prices strengthened again on increased tensions between the US and Iran. (The OPEC+ agreement roll for another 9 months was largely expected by the market.)

Source: ICE, Thomson Reuters

Market prices 16 July 2019; 2019-2020 future quotations

Nordic Q2 spot power price declined on improved hydrology



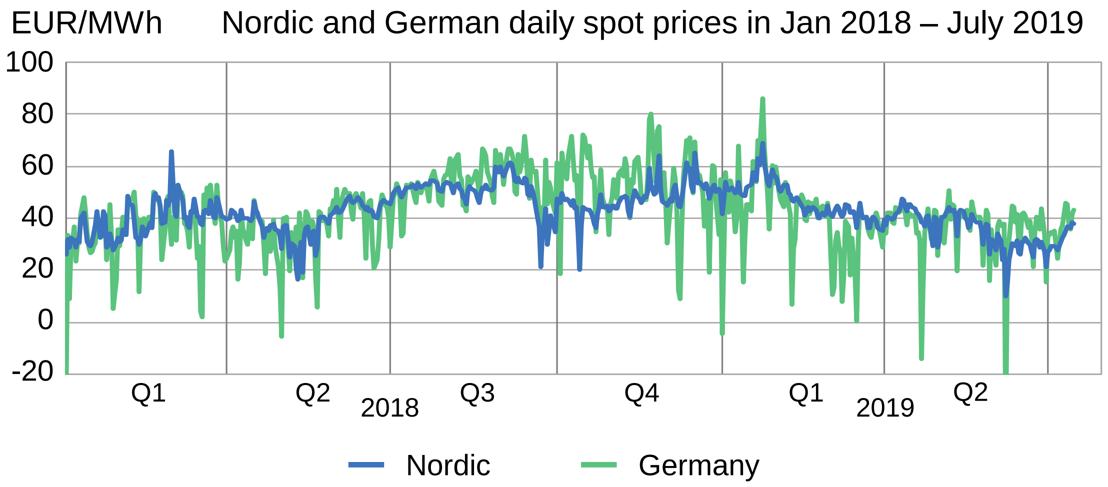
- During Q2, the average Nord Pool system spot price was 35.6 EUR/MWh (39.0)
- The average area price was:
  - 37.4 EUR/MWh (42.0) in Finland
  - 33.0 EUR/MWh (38.5) in Sweden (SE3, Stockholm)
- The decline in Nordic spot prices during the second quarter of 2019 was caused by the strengthening hydrological situation and falling continental prices, mainly driven by lower gas prices.

16 July 2019
Source: Nord Pool, Nasdaq Commodities

German-Nordic power price spread

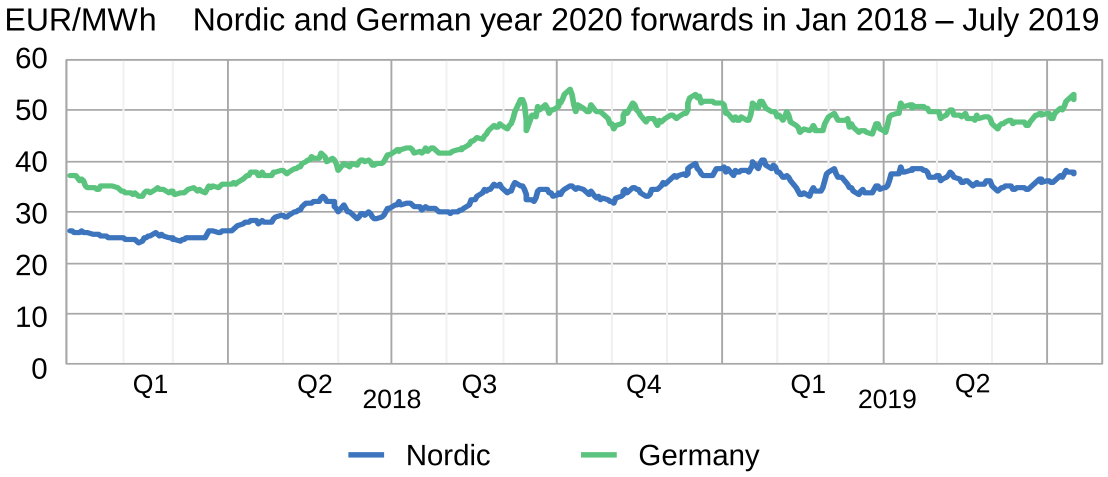
SPOT PRICE

- During Q2 2019, the average spread was 0.2 EUR/MWh with the Nordic system average price at 35.6 EUR/MWh and German price at 35.8 EUR/MWh
- Declining gas price, increasing generation from renewable energy sources and stable nuclear generation in Continental Europe contributed to the lower German spot price. In addition, Nordic prices were under pressure due to improving hydrological situation.
- 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



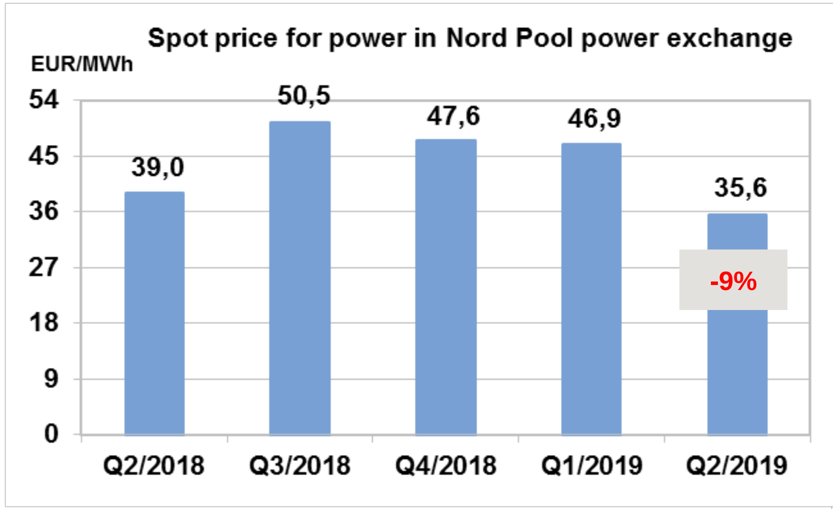
FORWARD PRICE

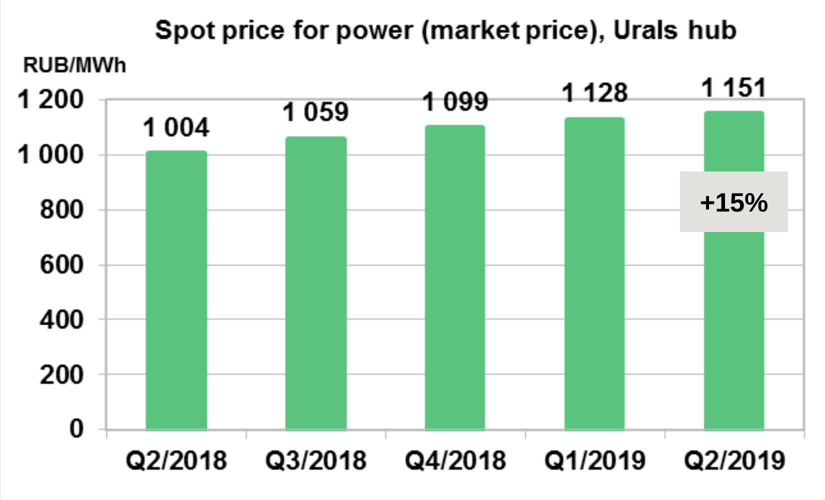
- During Q2 2019, the spread for 2020 delivery traded in the range 11.0-13.5 EUR/MWh, average at 12.6 EUR/MWh
- The German-Nordic spread is essentially determined by the supply and demand balance in the Nordics and in Continental Europe, in combination with available interconnector capacity. Thus investments in interconnectors, demand growth, expansion of renewable capacity, as well as phasing out of nuclear and coal capacity all play a key role.

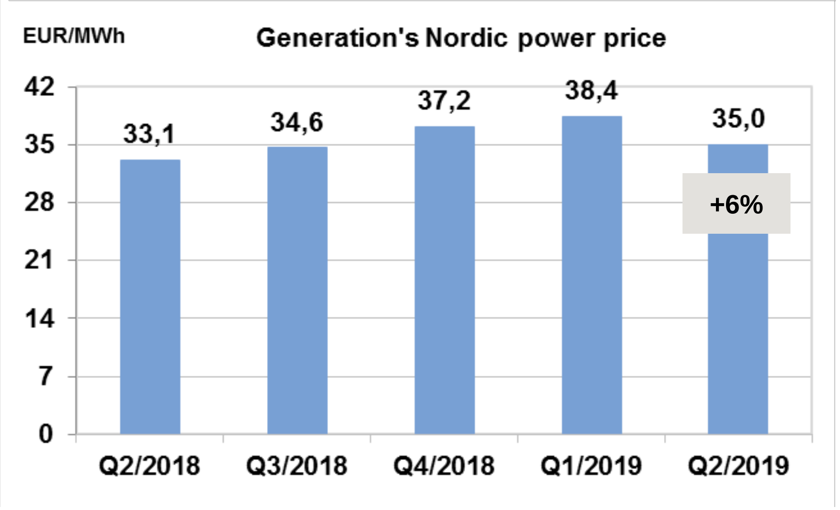


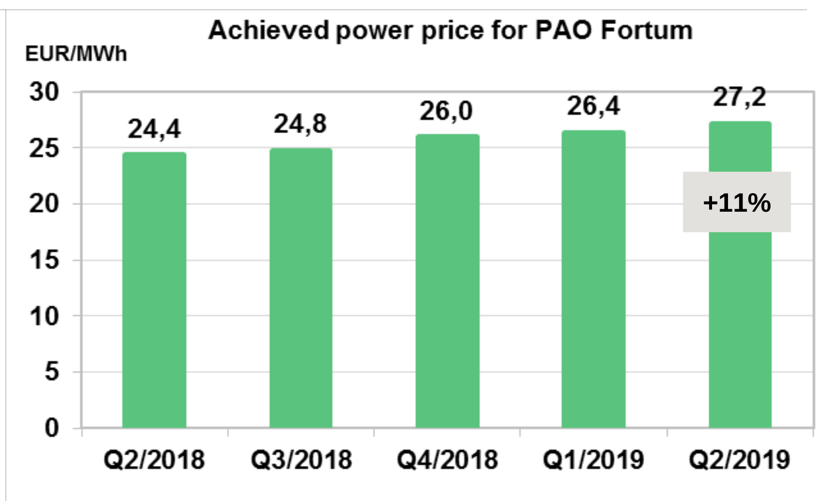
Including 16 July 2019
Source: Nord Pool, Bloomberg

Fortum's achieved power price +6% in Q2 despite lower Nordic power price – Russian achieved price +11%









Changes refer to year-on-year difference (Q2 2019 versus Q2 2018)
NOTE: Achieved power price (includes capacity payments) in roubles increased by 10%

Generation

Q2 2019

- Higher achieved power price, +1.9 EUR/MWh, +6%
- Good operational performance
  - Higher hydro and nuclear volumes

H1 2019

- Higher achieved power price, +3.3 EUR/MWh, +10%
- Good operational performance
  - Higher nuclear volumes and successful hydro optimisation

MEUR	Q2 2019	Q2 2018	Q1-Q2 2019	Q1-Q2 2018	2018	LTM
Sales	500	427	1,101	925	1,842	2,018
Comparable EBITDA	225	182	484	435	763	812
Comparable operating profit	191	151	414	370	628	672
Comparable net assets			6,140	5,908	6,485	
Comparable RONA %					10.8	11.8
Gross investments	63	51	101	98	262	265


Krångede, Sweden

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City Solutions

Q2 2019

- Higher heat sales volumes
- Improved result in recycling and waste business
- Higher fuel and CO_2 costs

H1 2019

- Improved result in recycling and waste business
- Better performance in heat business in Norway
- Higher power price

Hafslund synergies of EUR 5-10 million to be achieved by end of 2020

MEUR	Q2 2019	Q2 2018	Q1-Q2 2019	Q1-Q2 2018	2018	LTM
Sales	228	193	633	574	1,110	1,169
Comparable EBITDA	31	23	168	154	310	324
Comparable operating profit	-15	-21	77	67	135	145
Comparable net assets			3,792	3,771	3,794	
Comparable RONA %					5.5	5.7
Gross investments	136	55	207	84	242	365

Klaipeda, Lithuania

Consumer Solutions

Q2 2019

- Improved sales margin
  - Favourable market conditions
  - Improved product margins
- Continued competition with high customer churn in the Nordics

H1 2019

- Higher sales margins
  - Favourable market conditions continued in Q2
- Part of the profitability improvement was temporary

Hafslund synergies of ~EUR 10 million to be achieved by end of 2020

MEUR	Q2 2019	Q2 2018	Q1-Q2 2019	Q1-Q2 2018	2018	LTM
Sales	346	326	1,015	873	1,759	1,901
Comparable EBITDA	34	26	75	57	110	128
Comparable operating profit	19	11	44	29	53	68
Comparable net assets			512	645	648	
Customer base, million			2.43	2.48	2.47	
Gross investments	13	12	27	21	47	53

Russia

Q2 2019

- Clearly lower bad-debt provisions
- Higher power margins
- Higher CSA payments
- FX impact EUR 2 million

H1 2019

- Higher power margins and higher CSA payments
- Lower bad-debt provisions
- Heat distribution business to Yustek JV
- FX impact EUR -6 million

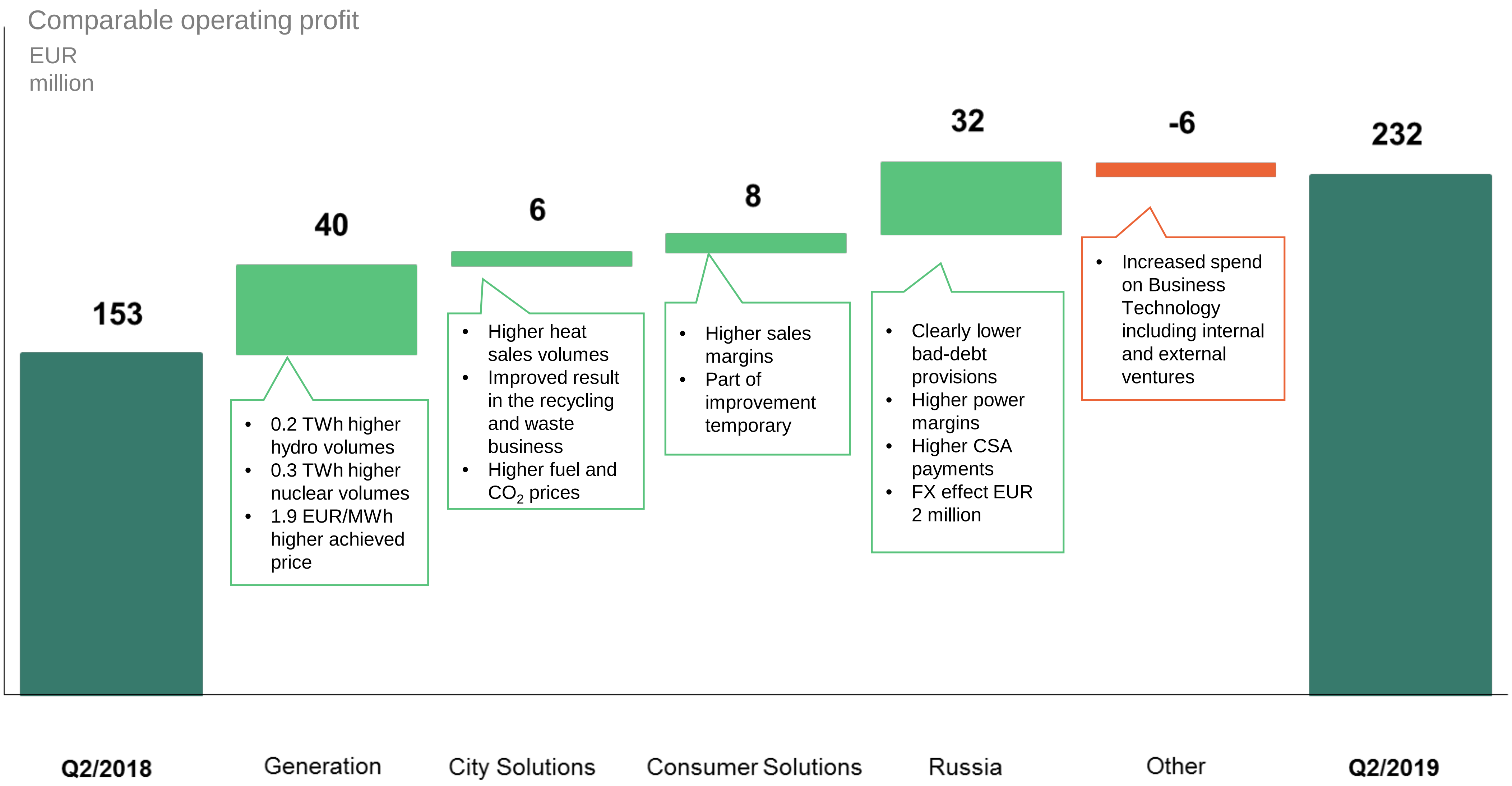
In 2019, no new units will receive higher CSA payments

MEUR	Q2 2019	Q2 2018	Q1-Q2 2019	Q1-Q2 2018	2018	LTM
Sales	239	228	537	565	1,069	1,041
Comparable EBITDA	107	73	242	215	417	444
Comparable operating profit	69	37	168	141	271	298
Comparable net assets			3,084	2,986	2,789	
Comparable RONA %					10.3	11.7
Gross investments	14	22	19	40	117	96

CSA=Capacity Supply Agreements


Chelyabinsk, Russia

Q2 2019 – Strong performance in Generation and Russia



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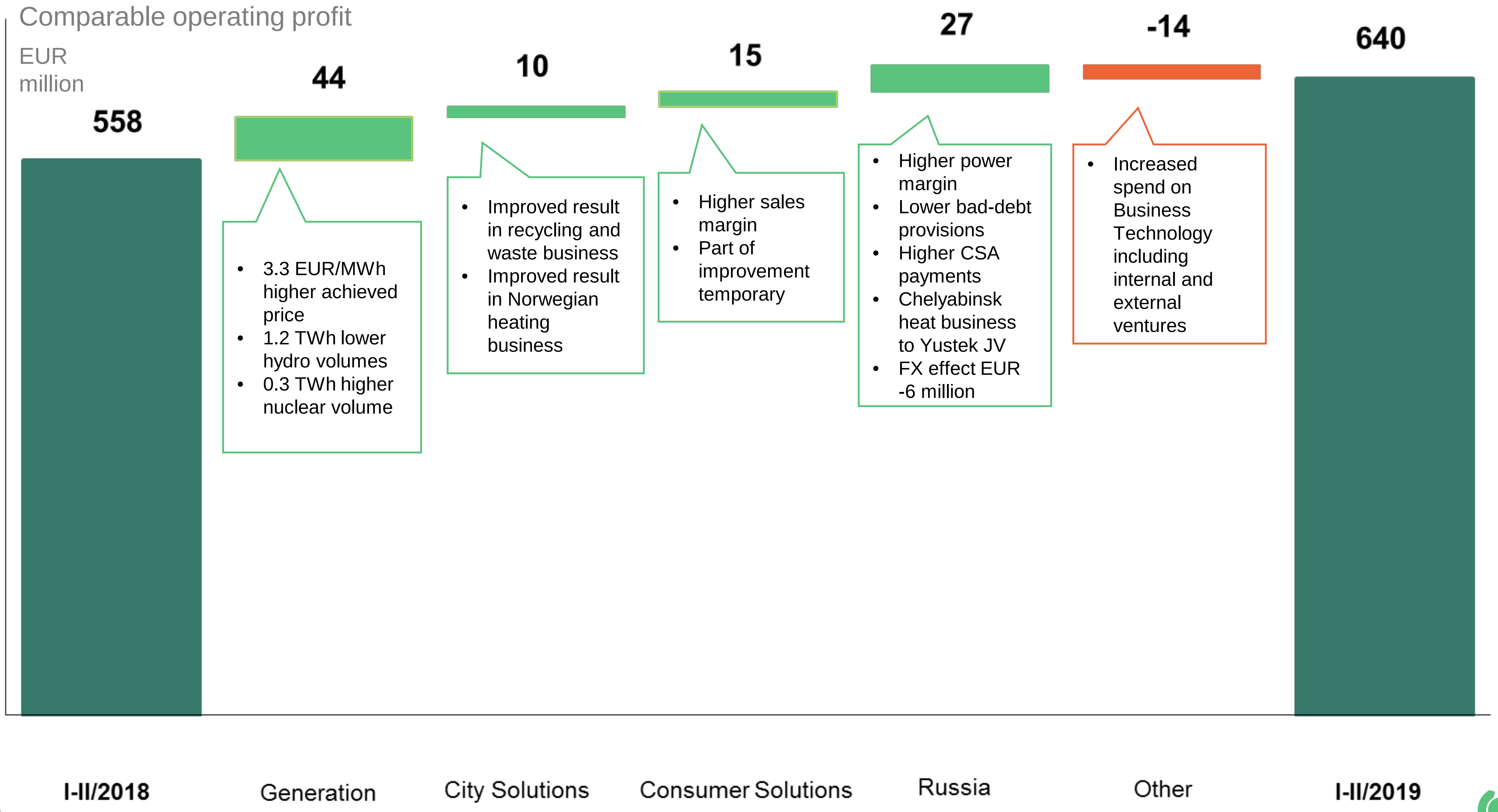
H1 2019 – Profit increased in all business segments



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Uniper purchase price allocation finalised

- The total acquisition cost EUR 3,968 million includes direct costs relating to the acquisition
- Fortum's share of the goodwill on Uniper's balance sheet, EUR 930 million, is derecognised as it is not an identifiable asset according to IFRS
  - Potential future impairments of goodwill, if booked by Uniper, will thereby be reversed to Fortum's share of profits of associates and joint ventures
- Fair value adjustment of EUR 613 million was made for the acquired assets and liabilities
  - Fair value adjustment will be reversed over 20 years, EUR 30 million per year
  - If Uniper reports negative impacts related to certain assets, Fortum will assess potential need to use this fair value adjustment to reverse these negative impacts

Uniper purchase price allocation	EUR million
Total acquisition cost	3,968
Acquired net assets	5,512
Fortum’s share of goodwill of the Uniper balance sheet	-930
Fair value adjustment	-613
Fair value of acquired net assets as of June 2018	**3,968**

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Key financials

MEUR	Q2 2019	Q2 2018	Q1-Q2 2019	Q1-Q2 2018	2018	LTM
Sales	1,144	1,087	2,834	2,672	5,242	5,404
Comparable EBITDA	372	282	918	820	1,523	1,621
Comparable operating profit	232	153	640	558	987	1,069
Operating profit	184	256	542	738	1,138	942
Share of profits of associates and joint ventures	461	24	572	70	38	540
Profit before income taxes	652	241	1,076	734	1,040	1,382
Earnings per share, EUR	0.69	0.24	1.07	0.68	0.95	1.34
Net cash from operating activities	740	361	1,491	634	804	1,661

- Comparable operating profit mainly driven by Generation and Russia
- Share of profits from associates of EUR 461 million
  - Uniper EUR 399 million:
    - EUR 49 million underlying result
    - EUR 334 million non-operating result
    - EUR 15 million reversal of fair value adjustment
- EPS Q2 2019
  - Items affecting comparability -0.05 (0.11)
  - Uniper impact 0.45 (-)
- Strong cash flow supported by
  - EUR 229 million of dividends received, of which Uniper EUR 165 million
  - Change in settlements for futures

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Income statement

MEUR	Q2 2019	Q2 2018	Q1-Q2 2019	Q1-Q2 2018	2018	LTM
Sales	1,144	1,087	2,834	2,672	5,242	5,404
Other income	23	18	44	42	130	132
Materials and services	-526	-555	-1,443	-1,380	-2,795	-2,858
Employee benefits	-123	-121	-245	-235	-459	-469
Depreciations and amortisation	-141	-130	-278	-262	-536	-552
Other expenses	-146	-145	-273	-278	-594	-589
Comparable operating profit	**232**	**153**	**640**	**558**	**987**	**1,069**
Items affecting comparability	-48	103	-98	180	151	-127
Operating profit	**184**	**256**	**542**	**738**	**1,138**	**942**
Share of profits/loss of associates and joint ventures	461	24	572	70	38	540
Finance costs - net	7	-39	-38	-74	-136	-100
Profit before income tax	**652**	**241**	**1,076**	**734**	**1,040**	**1,382**
Income tax expense	-45	-25	-109	-119	-181	-171
Profit for the period	**607**	**215**	**967**	**615**	**858**	**1,210**

- Nuclear fund adjustment due to regular nuclear technical update, impact of
  - Items affecting comparability EUR -54 million
  - Net financials EUR 40 million
- Share of profits from associates, EUR 461 million
  - Uniper EUR 399 million

Cash flow statement

MEUR	Q2 2019	Q2 2018	Q1-Q2 2019	Q1-Q2 2018	2018	LTM
Comparable EBITDA	**372**	**282**	**918**	**820**	**1,523**	**1,621**
Realised FX gains/losses	15	91	10	133	231	108
Paid net financial costs, income taxes and other	-109	-92	-168	-199	-341	-311
Dividends received	229	53	229	53	61	237
Change in working capital	233	27	502	-174	-670	6
of which change of settlements for futures	*24*	*-199*	*316*	*-290*	*-524*	*82*
Net cash from operating activities	**740**	**361**	**1,491**	**634**	**804**	**1,661**
Capital expenditures	-219	-118	-369	-252	-579	-696
Acquisitions of shares	-4	-3,732	-16	-3,750	-4,088	-354
Divestments of shares and capital returns	24	170	32	170	259	121
Change in cash collaterals and restricted cash	12	-113	322	-176	-36	462
Other investing activities	-26	47	-15	49	46	-18
Cash flow from investing activities	**-213**	**-3,747**	**-46**	**-3,959**	**-4,398**	**-485**
Cash flow before financing activities	**527**	**-3,386**	**1,445**	**-3,326**	**-3,594**	**1,177**
Paid dividends to the owners of the parent	-977	-977	-977	-977	-977	-977
Paid dividends to non-controlling interests	-23	-3	-23	-3	-5	-25

- Very strong cash flow strengthened by dividends received, change in settlements for futures and working capital
- Dividends received of EUR 229 million
  - Uniper EUR 165 million
- Fortum dividend of EUR 977 million paid

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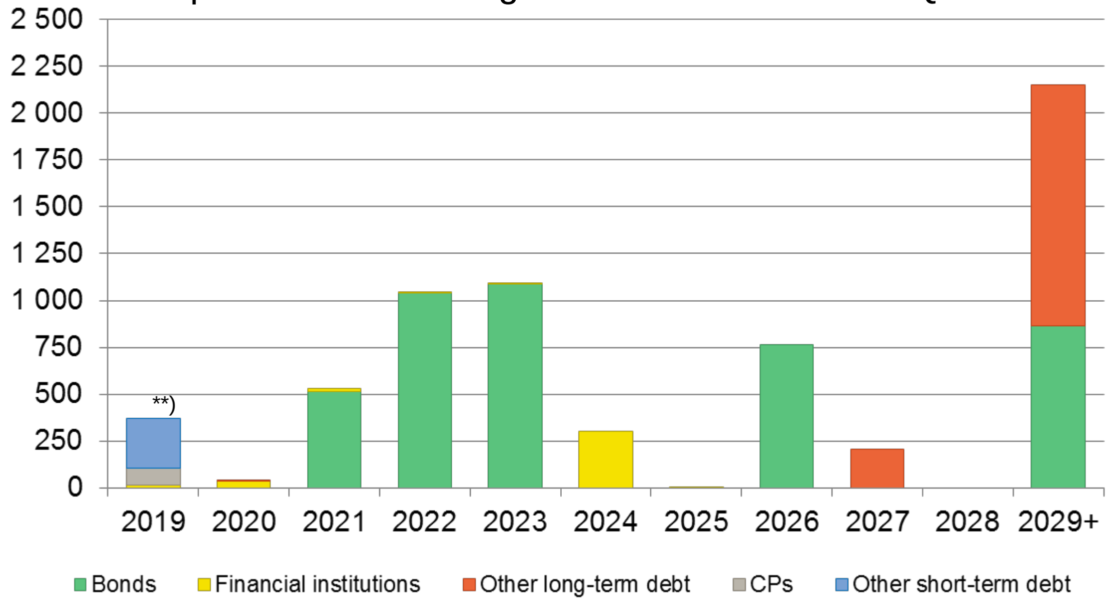
Ongoing actions to deleverage aim to optimise cash flow and maintain financial flexibility

	LTM	2018	TARGET
Comparable EBITDA, MEUR	1,621	1,523	
Interest-bearing net debt, MEUR	5,422	5,509	
Comparable net debt/EBITDA ratio*)	3.3x	3.6x	Around 2.5x
Return on capital employed (ROCE), %	8.4	6.7	At least 10%

Debt portfolio and average interest rate at end of Q2 2019



- Liquid funds of EUR 1.3 billion
- Committed credit lines of EUR 1.8 billion

- Total loans and borrowings of EUR 6,623 million
  - Average interest rate of 2.2% (2018: 2.4%)
  - Portfolio mainly in EUR and SEK with average interest cost 1.4% (2018: 1.7%)
  - EUR 769 million (2018: 686) swapped to RUB, average interest cost including cost for hedging 8.5% (2018: 8.3%)
  - Other short-term debt includes new non-cash collaterals and settlement

*) Uniper's EBITDA or debt are not consolidated as Uniper is accounted for as an associated company.
**) In addition, Fortum received EUR 67 million based on Credit Support Annex agreements with several counterparties. This amount has been booked as short term liability.

Outlook

Demand growth

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

Hedging

For the remainder of 2019: ~80% hedged at EUR 33 per MWh

For 2020: ~60% hedged at EUR 31 per MWh (Q1: 55% at EUR 31)

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 hydro assets' real estate tax rate to decrease over a four-year period (2017-2020)

Loviisa, Finland

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Q&A

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Fortum Investor Relations and Financial Communications

Ingela Ulfves
Vice President,
Investor Relations and
Financial Communication
+358 (0)40 515 1531
ingela.ulfves@fortum.com

Rauno Tiihonen
Manager
+358 (0)10 453 6150
rauno.tiihonen@fortum.com

Måns Holmberg
Manager
+358 (0)44 518 1518
mans.holmberg@fortum.com

Pirjo Lifländer
IR Specialist
+358 (0)40 643 3317
pirjo.liflander@fortum.com

Meeting requests:
Pia Lilja
Executive Assistant
+358 (0)50 553 5529
pia.lilja@fortum.com

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