Interim Report January-March 2020

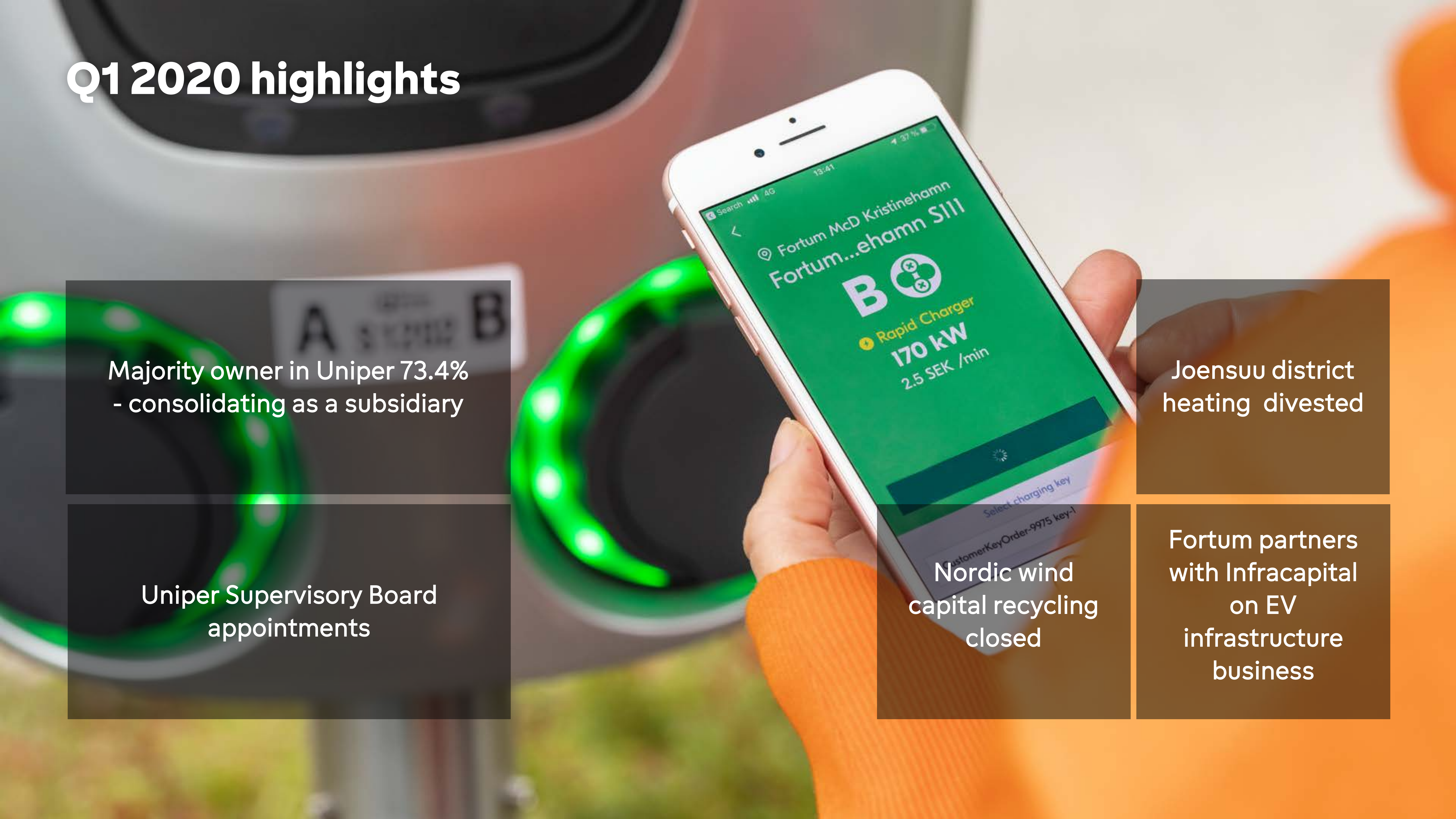
Fortum Corporation

15 May 2020

Q1 2020 – Solid result in a volatile market environment

- Power and heat consumption down due to mild winter
  - Nordic spot price down 67%
  - Water reservoirs clearly above long-term average levels in Q1
  - Volatile commodity and CO_2 prices
- Covid-19 has had limited immediate impact on Fortum's business
- Comparable EBITDA at EUR 543 (545) million
- Comparable operating profit at EUR 393 (408) million
- Fortum's share of profits from associates of EUR 479 (111) million
  - Strong result contribution from Uniper of EUR 469 million
- EPS at EUR 1.05 (0.38)
  - Items affecting comparability EUR 0.22 (-0.04) and Uniper 0.53 (0.06)
- Balance sheet supported by strong operational cash flow and divestments
- Long-term financial targets will be revised following Uniper consolidation

Q1 2020 highlights



Majority owner in Uniper 73.4% - consolidating as a subsidiary

Joensuu district heating divested

Uniper Supervisory Board appointments

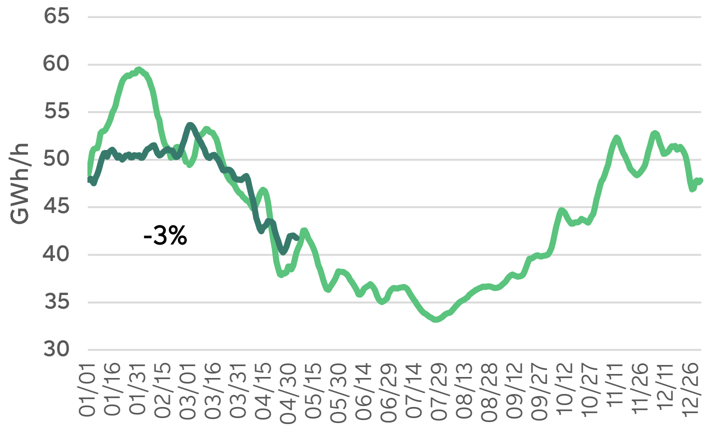
Nordic wind capital recycling closed

Fortum partners with Infracapital on EV infrastructure business

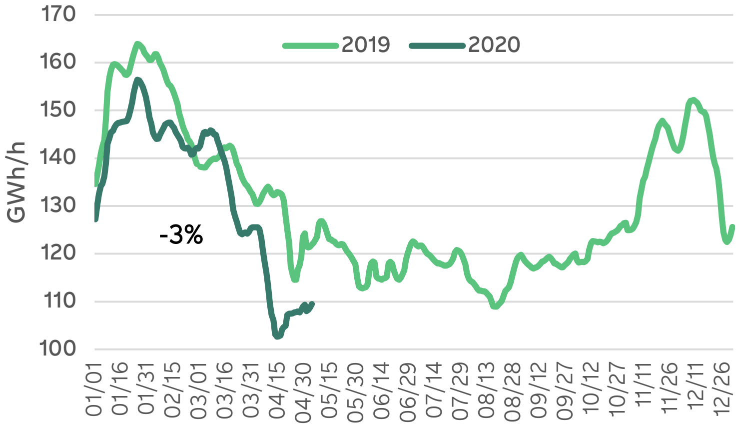
Power demand development in different areas

Decrease in the Nordics and Russia due to warm weather, other regions mainly affected by Covid-19

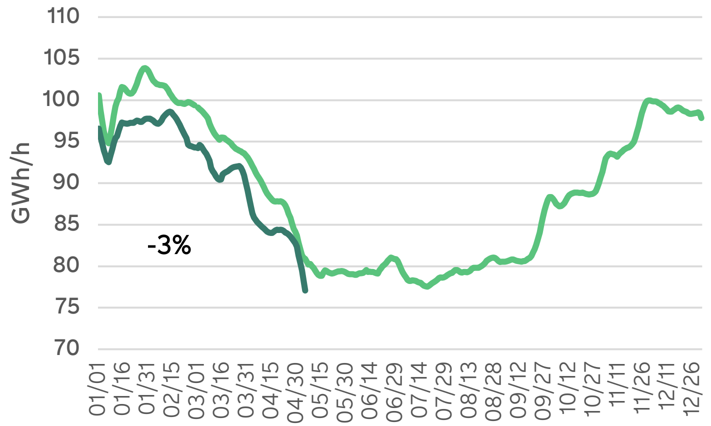
Nordics



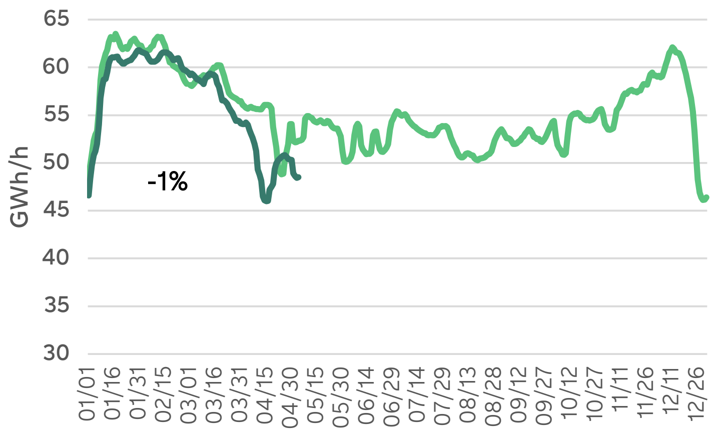
CWE



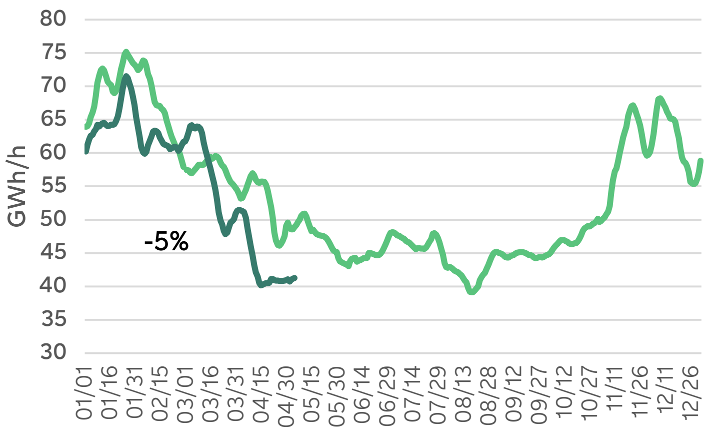
Russia (First price zone)



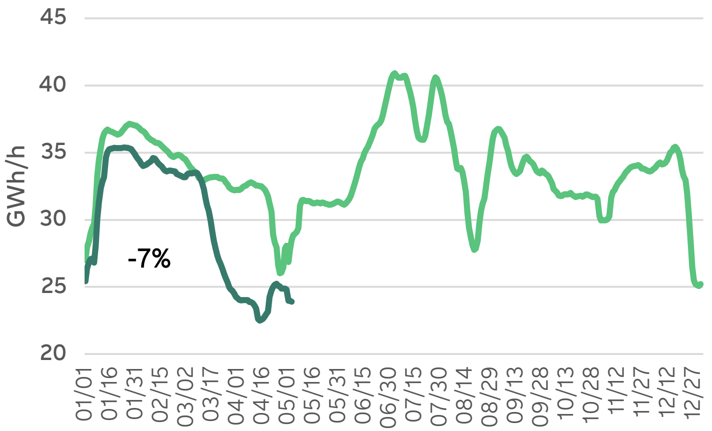
Germany



France



Italy



Source: ENTSO-E hourly reported power demand, 7 day moving avg
CWE = Central Western Europe (Germany, France, Netherlands, Belgium)
Percentage change in Q1 2020 compared to Q1 2019

Risk assessment of Covid-19 impact on Fortum

So far very limited effect from Covid-19, lot will depend on industrial activity on our core areas

Not directly Covid-19 related

Directly (also) Covid-19 related

GENERATION	RUSSIA
CITY SOLUTIONS	CONSUMER SOLUTIONS

GENERATION

- Power price – hedging supports result
- Power demand – impacted by weather conditions and seasonality
- Power demand – affected by industrial power demand in the Nordics
- Planning of annual overhauls of nuclear plants and regular maintenance of power plants

RUSSIA

- Power and heat price – CSA and CCS capacity payments provides stability and visibility
- Power and heat demand – impacted by weather conditions and seasonality
- Power and heat demand – affected by industrial demand
- Negative EUR translation effect - weaker RUB
- Potential bad debts – affected by customers' financial situation and solvency

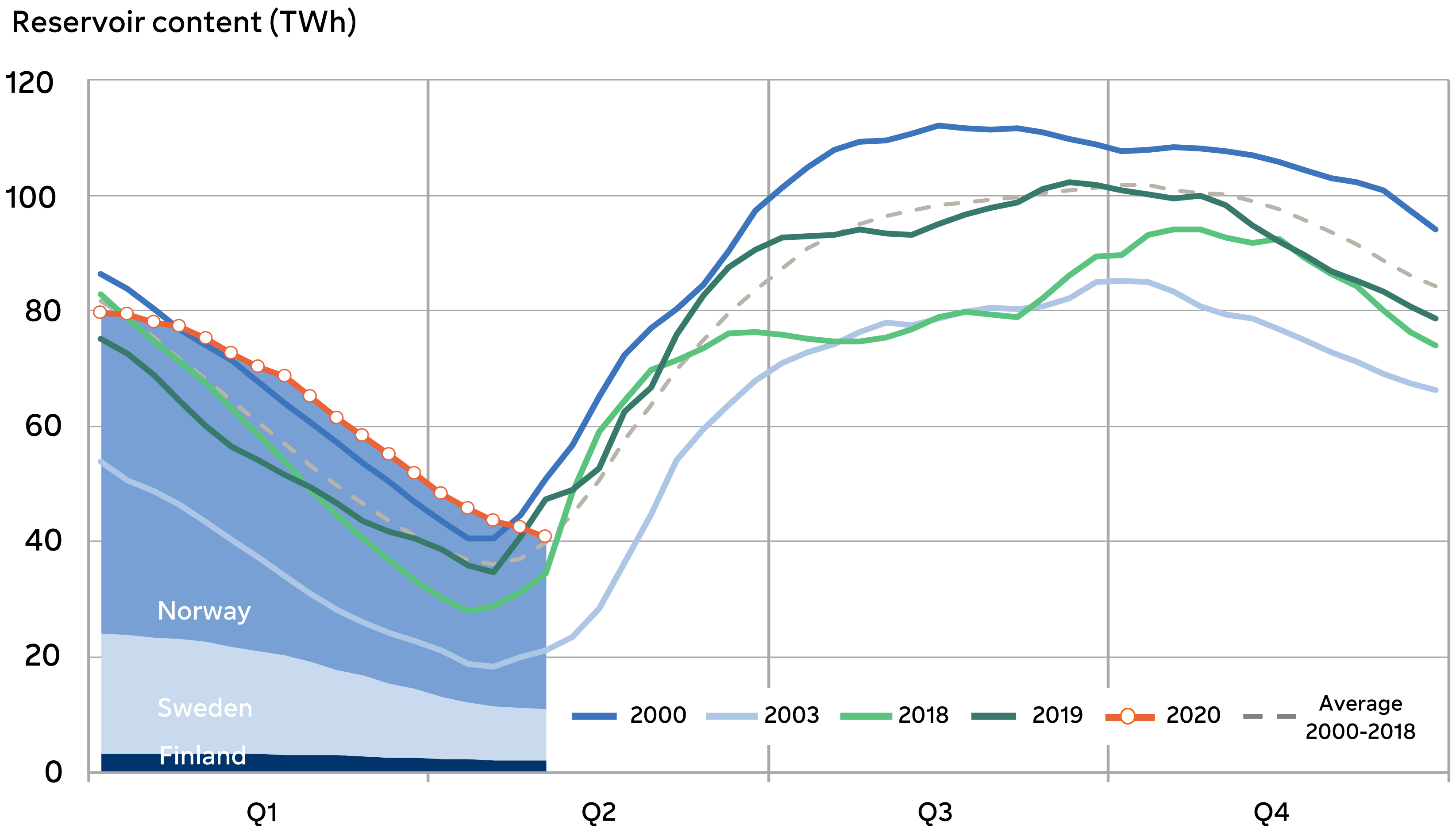
CITY SOLUTIONS

- Heat and power prices – resilience as heating is contracted, power prices hedged
- Heat demand – impacted by weather conditions and seasonality
- Power and heat demand – affected by industrial demand
- Recycling and waste business – affected by industrial demand and smoothness in supply chain logistics

CONSUMER SOLUTIONS

- Sales price and gross margin – impacted by power price
- Potential credit losses - affected by customers' financial situation and solvency

Nordic hydro reservoir surplus increased during Q1



- Rainy and mild weather led to a clear increase in the surplus of the Nordic water reservoirs during January and February 2020
- Weather conditions were closer to long term average level in March and April
- After the rainy period in the first quarter, the water reservoirs are currently at normal level
- Snow balance currently shows a surplus

Source: Nord Pool, 2019 by country

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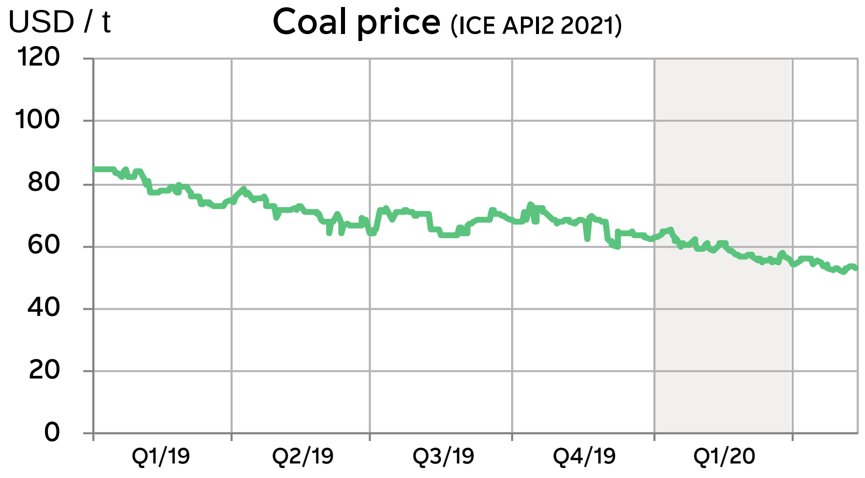
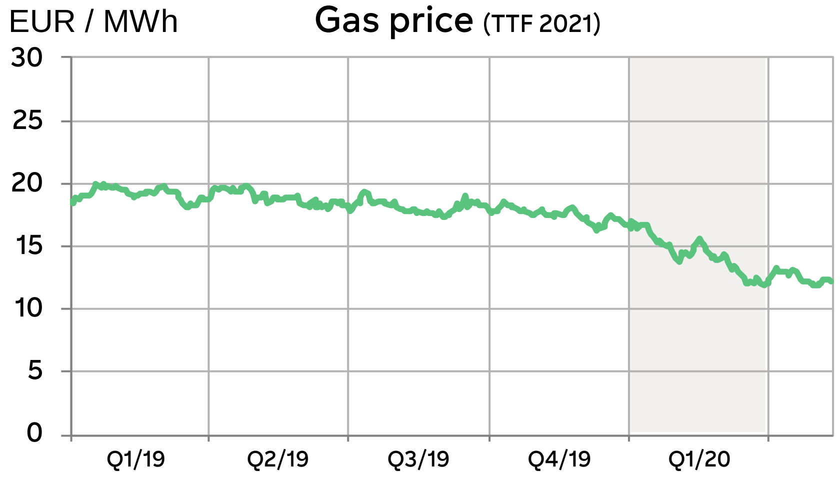
Fuel prices in Q1 on a downward trend



- Generally coal prices have been less affected by Covid-19 compared to many other energy commodities.
- During Q1, 2021 coal forward dropped ~13% from 62 USD/t to 55 USD/t. Mild winter combined with weakening gas and power prices contributed to the decline in European coal prices.
- Global coal prices have declined driven by ample LNG supply and decreasing coal demand. Rising power generation based on nuclear and renewables in Asia have contributed to decreasing coal demand.

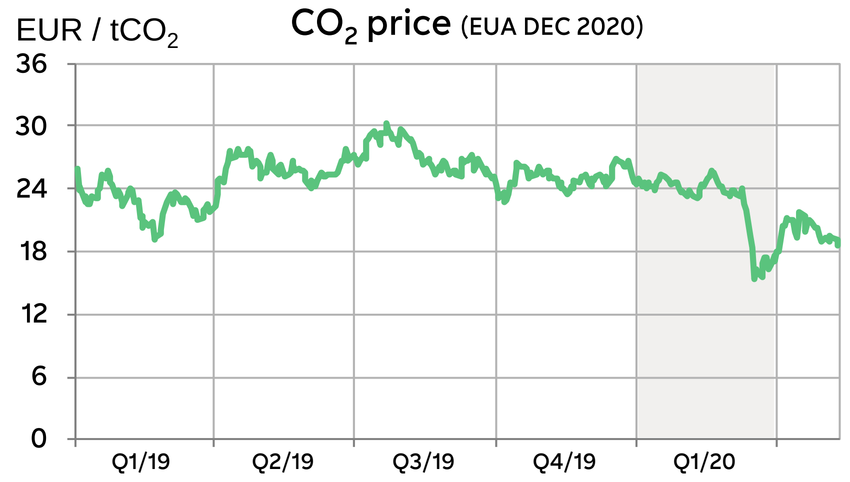


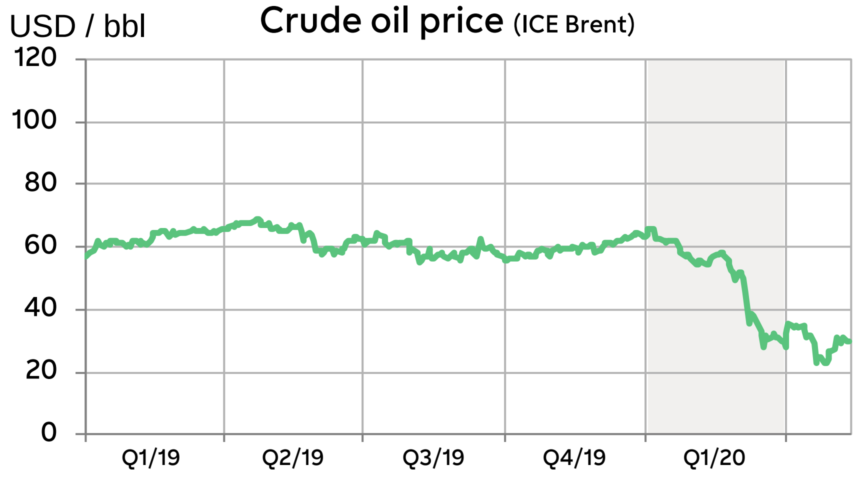
- European gas prices declined strongly during Q1 2020 with the summer 2020 contracts down almost 40% and year 2021 contract down 25%.
- During March, the outbreak of the corona pandemic worked as a catalyst in a market situation that was already impacted by ample LNG supply and record high storage levels in Europe.
- Recent years weak gas price trend has been driven by the fast increase of global LNG supply coupled with slower growth in North East Asia. Similarly to coal, weak gas demand in Asia is related to growth in power production based on nuclear and renewables and slowing industrial production.

Source: Bloomberg

12 May 2020

Volatile CO_2 and oil prices





Source: Bloomberg

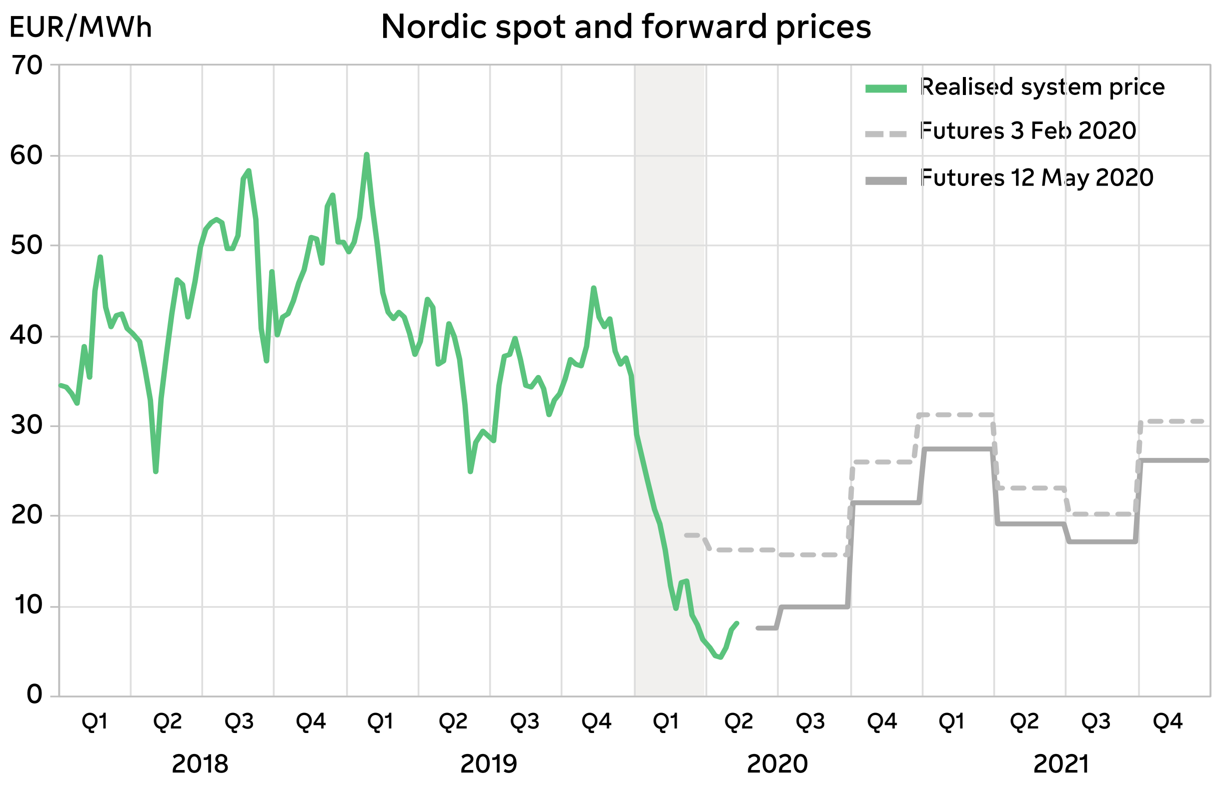
12 May 2020

- EUA price saw a drastic decline during mid-March when in just five days the prices dropped from 24 €/t level to 14 €/t. Increased auction supply in 2020 coupled with falling demand due to Covid-19 being the main drivers. In addition the year ahead gas price weakening strongly against coal, decreasing the coal to gas switching price.
- After a sharp fall, the EUA prices recovered rapidly to above 21 €/t.
- 2019 emissions dropped 9% (~150 mton) compared to 2018.
- On a few year's perspective, the strong intake of MSR continues to make the EUA market tighter. Also, the EU is in the process of tightening its 2030 climate target.

- Oil price declined strongly during the quarter as the front-month of Brent declined from above 60 USD/t level to below 20 USD/t.
- Oil price have been impacted by Covid-19 since Feb 2020 as the market started to discount lower demand.
- Oil price collapse followed the unsuccessful OPEC+ meeting that practically led to an oil price war between Saudi Arabia and Russia.

Rainy and mild weather combined with weak commodities

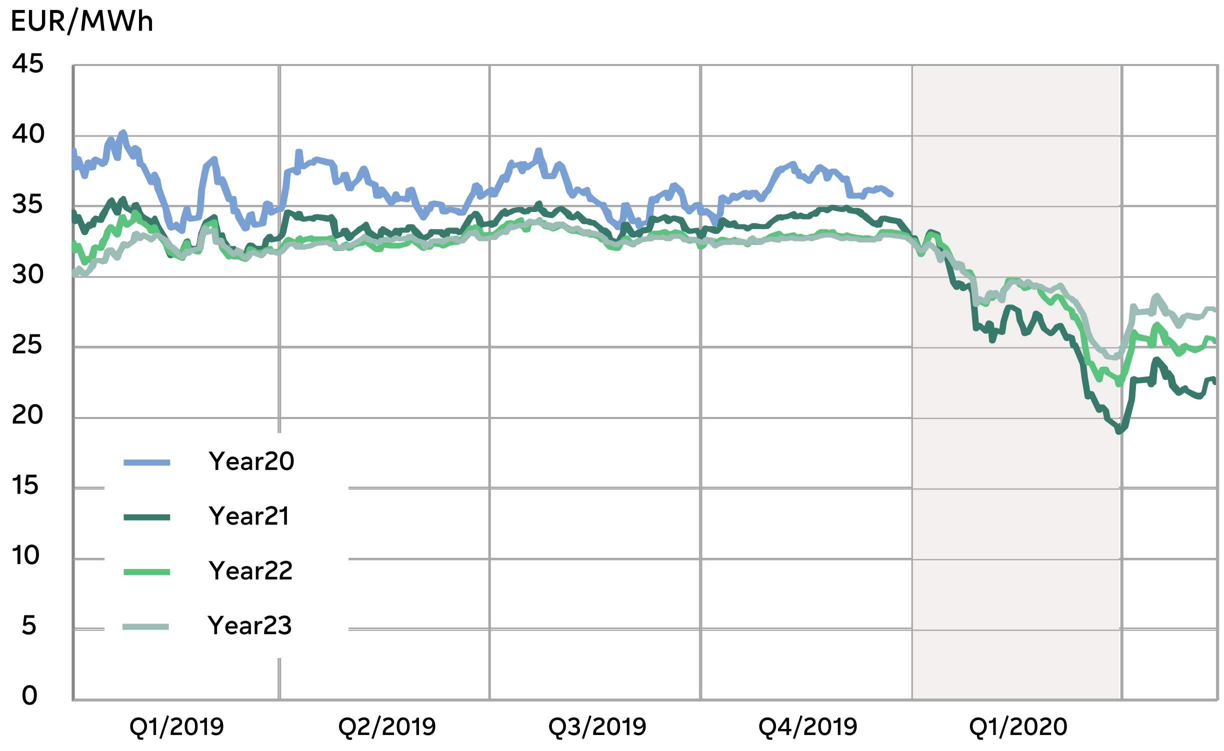
Nordic forward prices especially for 2020 declined



Source: Nord Pool, Nasdaq Commodities

- During Q1, the average Nord Pool system spot price was 15.4 EUR/MWh (46.8)
- The average area prices were:
  - 24.0 EUR/MWh (47.5) in Finland
  - 18.7 EUR/MWh (46.4) in Sweden (SE3, Stockholm)
- The Nordic spot prices declined during Q1 2020 caused by exceptionally rainy and mild weather. This development was also supported by low spot prices in Continental Europe, driven especially by declining gas prices.
- The forward market is expecting the Nordic system price to remain on current low level until next winter.
- The decline in power demand in the Nordics during Q1 from 116 TWh to 112 TWh y-on-y is mainly explained by the rainy and mild winter, not depending on Covid-19 impact.

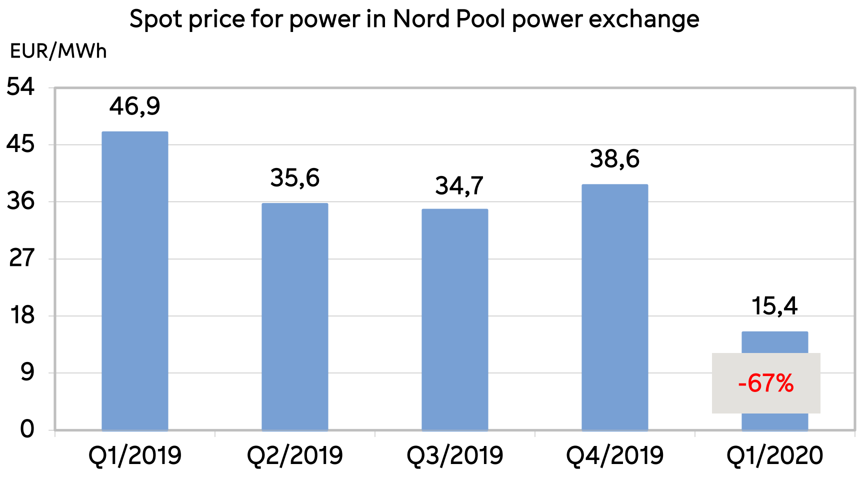
Nordic year forwards driven by Continental European power prices and hydrology

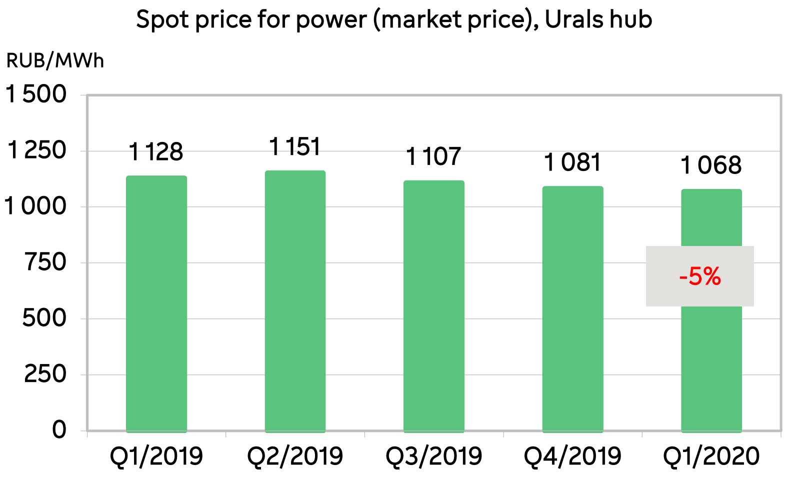


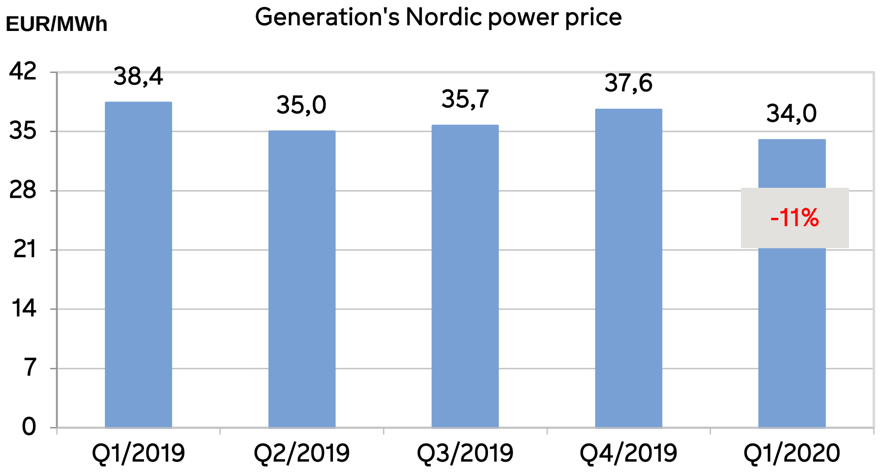
Source: Bloomberg, forwards until 12 May 2020

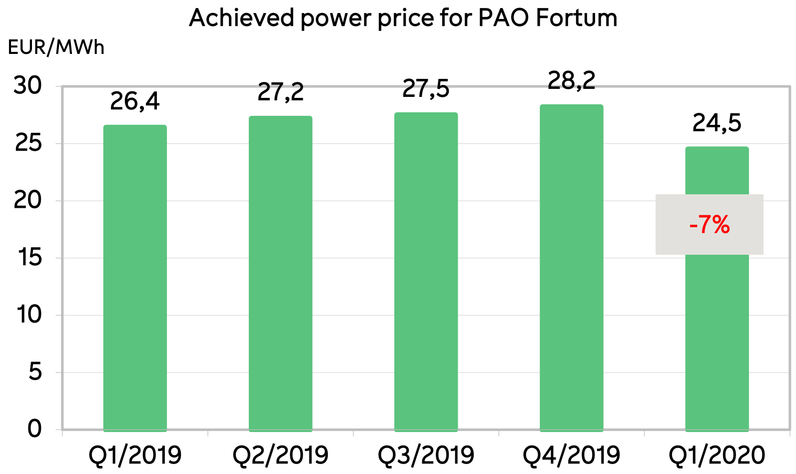
- Along with the declining spot price, also the forward prices have come down significantly since year end.
- While hydrology is clearly the main driver for soft Nordic spot prices, the forward curve is more driven by Continental power prices, fuels and CO_2 prices.
- In the beginning of 2020, Nordic YR 2021 forward contract dropped from 33 EUR/MWh to 22 EUR/MWh (end of April).
- The decline in Nordic yearly power contracts during the last months can especially be attributed to weaker gas prices and declining CO_2 prices.
- Weak market sentiment for global energy commodities is partly caused by the Covid-19 and the measures to restrict its spreading.

Fortum hedging supported achieved power price in the Nordics as power prices declined, Russia power prices stable









Changes refer to year-on-year difference (Q1 2020 versus Q1 2019)
NOTE: Achieved power price (includes capacity payments) in roubles decreased by 10%

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Generation

- Higher comparable operating profit in Q1, +5%
  - Higher hydro power generation, +33%
  - Achieved power price supported by hedges, 4.4 EUR/MWh lower at 34.0 EUR/MWh, -11% while spot price -67%
- The segment's overall operational performance and the load factor for nuclear generation were at a good level
- The CO_2 free generation accounted for 100% (99%) of the total power generation.

MEUR	I/2020	I/2019	2019	LTM
Sales	574	601	2,141	2,114
Comparable EBITDA	273	259	939	953
Comparable operating profit	235	223	794	806
Comparable net assets	5,306	6,228	6,147	
Comparable RONA %			12.8	12.6
Gross investments	34	38	260	256

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Russia

- Comparable operating profit flat in Q1
  - Lower electricity margin and CSA payments
  - Higher heat tariffs
  - FX impact EUR -2 million
- In 2020, no new units will receive higher CSA payments

MEUR	I/2020	I/2019	2019	LTM
Sales	317	298	1,071	1,090
Comparable EBITDA	138	135	469	472
Comparable operating profit	99	99	316	316
Comparable net assets	2,606	3,030	3,205	
Comparable RONA %			12.3	12.6
Gross investments	4	5	133	132

CSA=Capacity Supply Agreements


Ulyanovsk, Russia

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City Solutions

- Lower comparable operating profit in Q1
  - Heating and cooling business EUR 22 million negatively affected by
    - Lower heat sales volumes
    - Lower power prices especially lowering heat prices in Norway
  - The divestment of Joensuu district heating impact EUR -10 million
  - Recycling and waste business negatively affected by changing market conditions and one-time effects
- Strategic review of district heating in Järvenpää (Finland), Poland and Baltics initiated

MEUR	I/2020	I/2019	2019	LTM
Sales	342	405	1,200	1,137
Comparable EBITDA	106	137	309	278
Comparable operating profit	58	92	121	87
Comparable net assets	3,577	3,845	3,892	
Comparable RONA %			4.7	3.8
Gross investments	38	72	322	288

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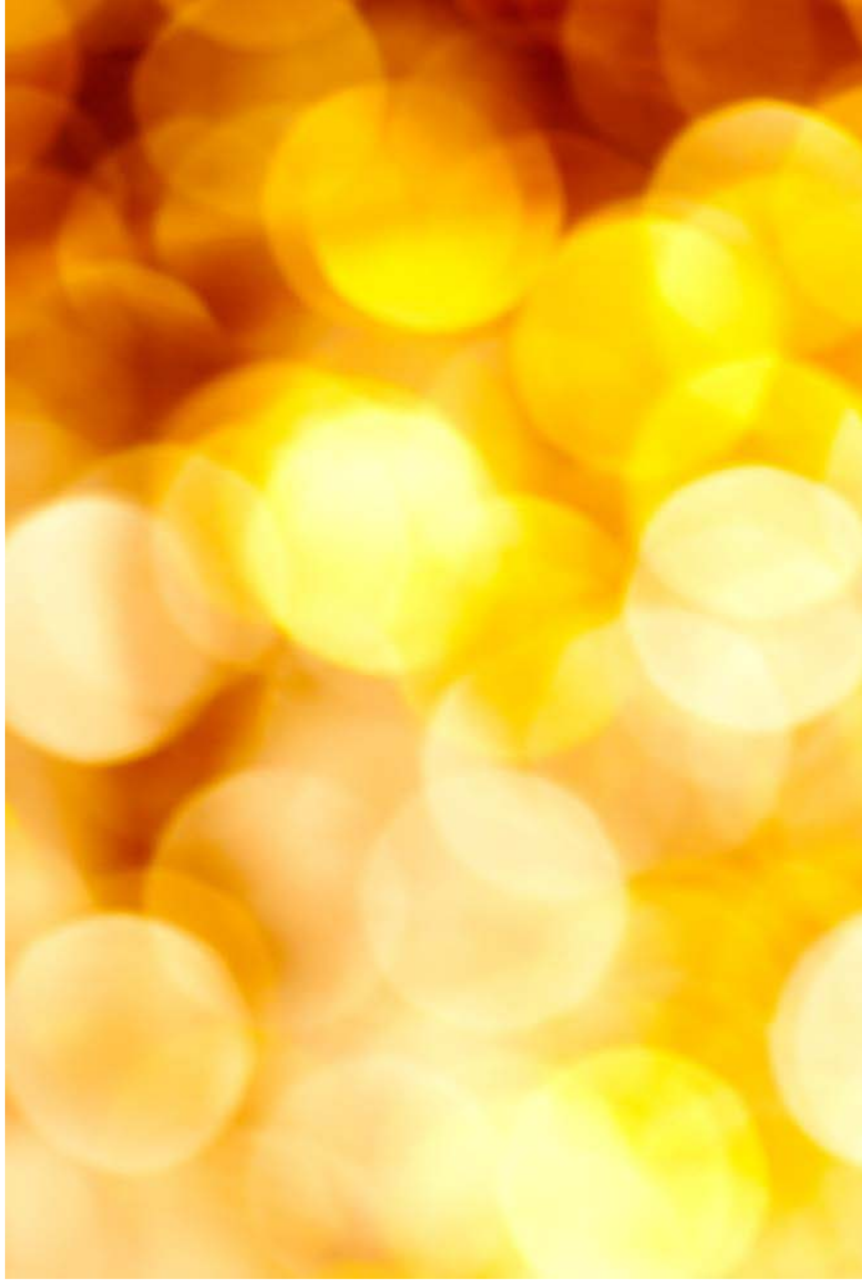
Consumer Solutions

- Sales -37% following significantly lower power prices in Q1
  - Competition continued to be intense with high customer churn
  - Accelerated Covid-19 pandemic increased uncertainty in the small and medium size enterprise segment
- Comparable operating profit +23% in Q1
  - Higher sales margins as a result of active development of the service offering following the Hafslund integration and subsequent development of the business

MEUR	I/2020	I/2019	2019	LTM
Sales	424	669	1,835	1,590
Comparable EBITDA	48	41	141	148
Comparable operating profit	32	26	79	85
Comparable net assets	567	647	640	
Customer base, million	2.38	2.46	2.38	
Gross investments	15	13	55	57

Fortum team providing lunches to intensive care hospital in collaboration with Fortum enterprise customer, restaurant Operakällaren, #StrongerTogether

Uniper



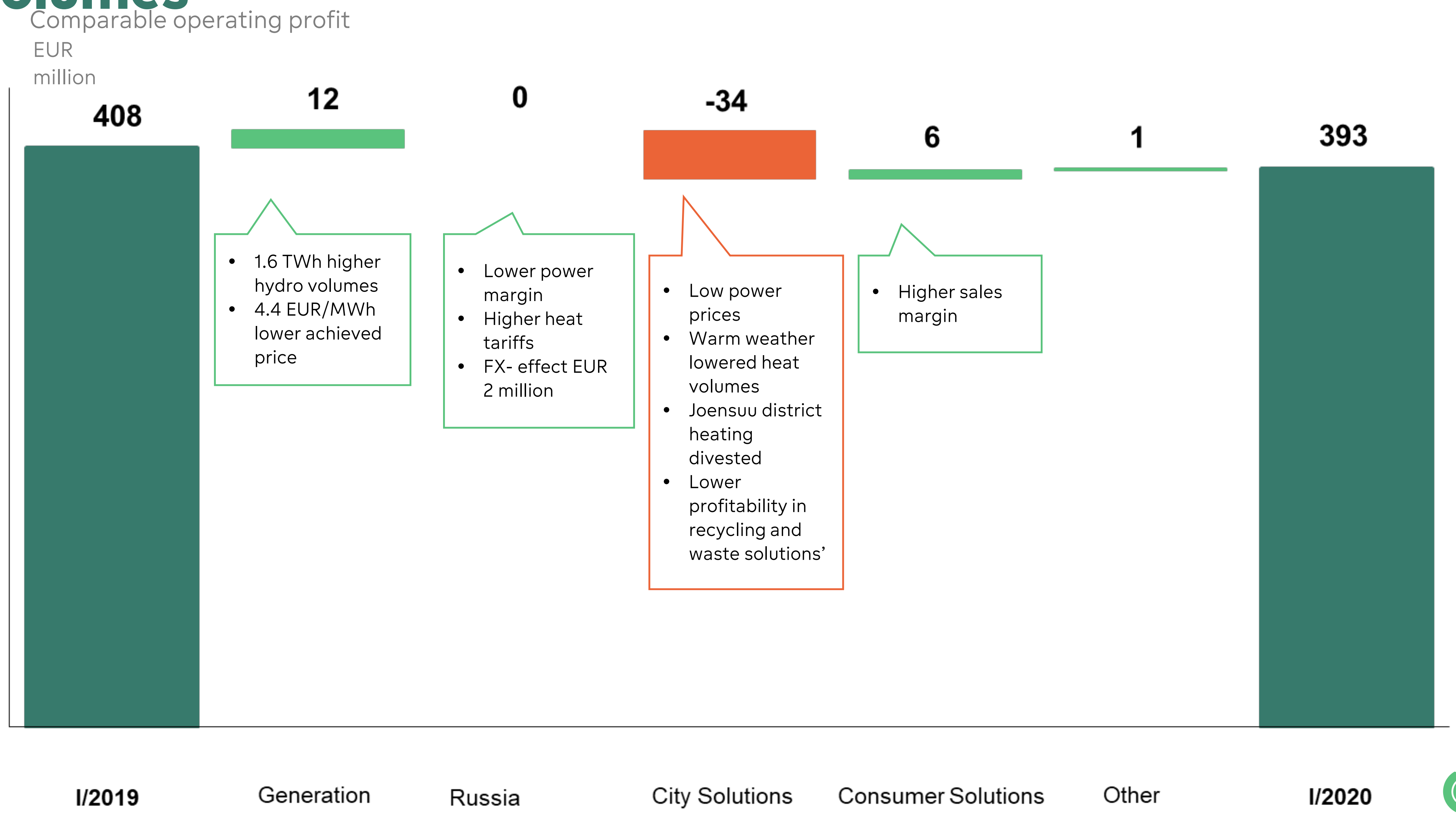
Ownership and collaboration

- Fortum’s ownership increased to 73.4%
  - Uniper has become a subsidiary and a valuable part of the Fortum group
- New Supervisory Board members appointed
  - Fortum nominated 4/6 shareholder representatives
- First collaboration areas established, strategic alignment during 2020
  - Results and target setting expected by the end of this year

Financial impact and consolidation

- Uniper’s balance sheet consolidated at the end of Q1 2020
- Fortum’s share of profit from Uniper, EUR 469 million (49), and EPS effect of EUR 0.53 (0.06)
  - Recorded in “Other Operations”
- Uniper’s result consolidated to Fortum’s income statement from Q2 2020 onwards

Q1 2020 – Lower achieved power price and higher hydro volumes



Income statement

MEUR	I/2020	I/2019	2019	LTM
Sales	1,357	1,690	5,447	5,114
Other income	23	21	110	112
Materials and services	-576	-917	-2,721	-2,380
Employee benefits	-123	-122	-480	-481
Depreciations and amortisation	-150	-137	-575	-588
Other expenses	-138	-127	-591	-602
Comparable operating profit	**393**	**408**	**1,191**	**1,176**
Items affecting comparability	199	-50	-81	168
Operating profit	**592**	**358**	**1,110**	**1,344**
Share of profits/loss of associates and joint ventures	479	111	744	1,112
Finance costs - net	-57	-46	-125	-136
Profit before income tax	**1,014**	**424**	**1,728**	**2,318**
Income tax expense	-76	-65	-221	-232
Profit for the period	**938**	**359**	**1,507**	**2,086**

- Lower power prices:
  - Sales declined due to lower power prices and divestment of district heating business in Joensuu, Finland
  - Materials and services down due to lower power purchase costs
- Items affecting comparability includes
  - EUR 431 million sales gain related to divestment of Joensuu
  - EUR -222 million from the change of Uniper to a subsidiary from being an associated company (translation differences)
- Share of profits from associated companies related to significant share of profits from Uniper, EUR 469 million

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Cash flow statement

MEUR	I/2020	I/2019	2019	LTM
Comparable EBITDA	**543**	**545**	**1,766**	**1,764**
Paid net financial costs, income taxes and other	-115	-64	-74	-125
Change in net margin liabilities	553	292	356	617
Change in working capital	133	-22	-33	122
Net cash from operating activities	**1,114**	**751**	**2,015**	**2,378**
Capital expenditures	-110	-150	-695	-655
Acquisitions of shares (net of cash)	-844	-12	-107	-939
Divestments of shares	524	8	53	569
Change in cash collaterals and restricted cash	7	310	311	8
Other investing activities	17	12	69	74
Cash flow from investing activities	**-406**	**167**	**-369**	**-942**
Cash flow before financing activities	**708**	**918**	**1,646**	**1,436**
Paid dividends	0	0	-977	-977

- Strong net cash from operating activities
- Net cash from investing activities impacted by
  - acquisition of shares in Uniper, EUR 844 million net of cash
  - divestment of shares, mainly Joensuu district heating business, EUR 524 million
- Dividend of EUR 977 million paid on 5 May, no impact Q1 2020

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Balance sheet

MEUR	I/2020	2019
Intangible assets	2,185	1,143
Property, plant and equipment	18,716	10,123
Participations in associates and JVs	2,869	6,435
Derivative financial instruments	23,205	311
Interest-bearing receivables	2,661	1,035
Shares in Nuclear Waste Funds	2,962	813
Other assets including trade receivables	11,870	2,074
Liquid funds	4,081	1,433
Total assets	**68,550**	**23,364**

MEUR	I/2020	2019
Equity of the parent company	13,776	12,982
Non controlling interest	3,192	252
Total equity	**16,968**	**13,235**
Derivative financial instruments	21,415	389
Interest-bearing liabilities	10,458	6,688
Nuclear provisions	3,276	813
Other provisions	4,489	225
Other liabilities	11,944	2,014
Total liabilities	**51,582**	**10,129**
Total equity and liabilities	**68,550**	**23,364**

- PPE increased (EUR 9.1 billion) due to Uniper’s assets
- Uniper reclassified from associate to subsidiary
- Derivative assets (EUR 23.2 billion) and Derivative liabilities (EUR 21.4 billion) mainly due to Uniper’s financial contracts
- Share in Nuclear Waste Funds and Nuclear provisions increased due to Uniper nuclear assets in Sweden
- Other (than nuclear) provisions increased by EUR 4.2 billion
- New lines on balance sheet; Margin receivables (EUR 0.6 billion) and Margin liabilities (EUR 1.5 billion)
- Goodwill (EUR 1.8 billion) in Uniper’s balance sheet not included as it is not an identifiable asset of Fortum according to IFRS

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New net debt definitions

Financial net debt and adjusted net debt

EUR million	31 Mar 2020
+ Interest-bearing liabilities	**10 464**
- Liquid funds	4 081
- Non-current securities	76
- Collateral arrangement securities	243
- Securities in interest bearing receivables	319
- Margin receivables	559
+ Margin liabilities	1 478
+ Net margin liabilities	919
Financial net debt	**6 983**
+ Pension obligations	1 032
+ Other asset retirement obligations	775
- Share of Finnish and Swedish Nuclear Waste Funds	2 962
+ Nuclear provisions	3 276
+ Nuclear provisions net of assets in Nuclear Waste Funds	314
+ Total provisions net of assets in Nuclear Waste Funds	**2 121**
Adjusted net debt	**9 104**

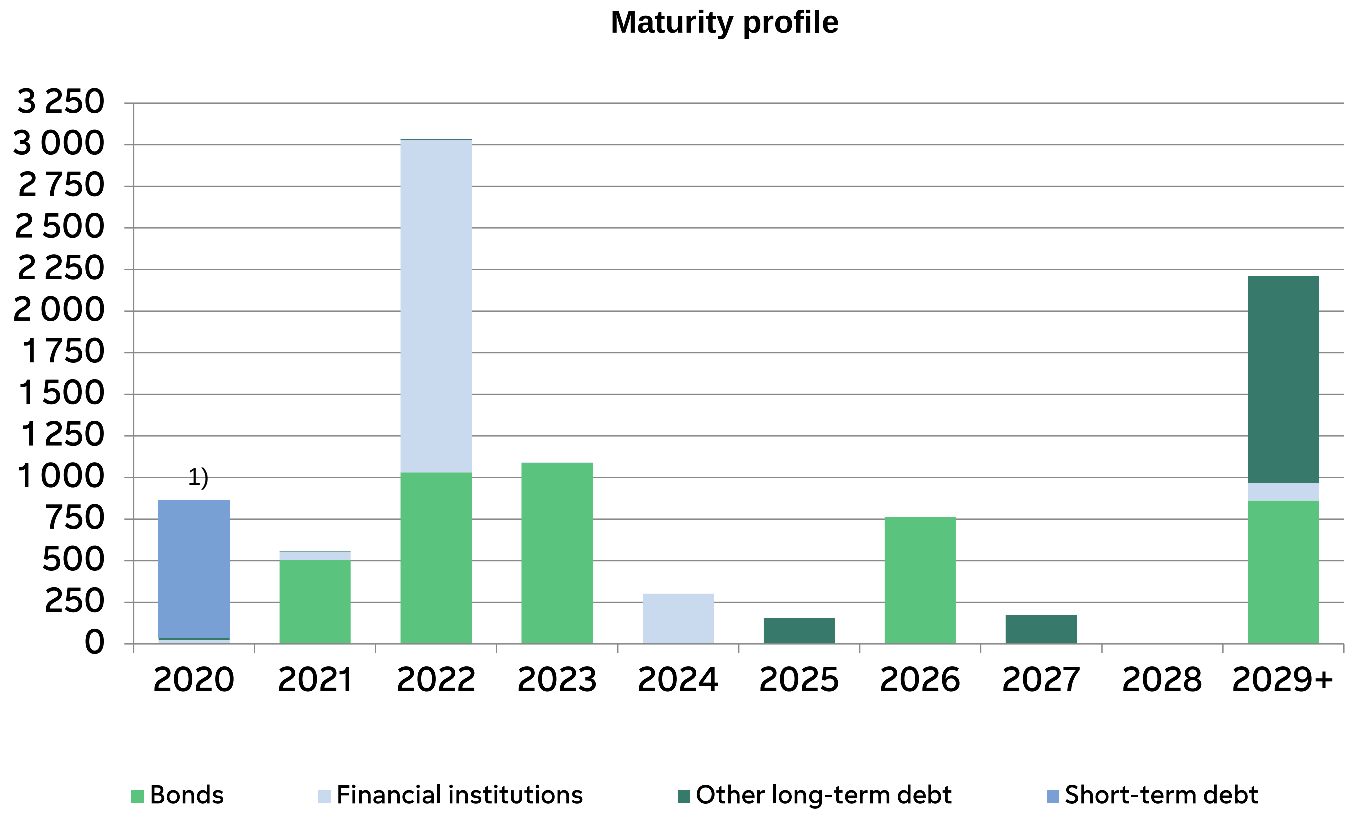
"Net debt" of EUR 6,383 million according to Fortum's previous definition

New "Financial net debt"

New "Adjusted net debt"

Ongoing actions to optimise cash flow and financial flexibility

Fortum targets to have a solid investment grade rating of at least BBB to maintain its financial strength, preserve financial flexibility and good access to capital markets for the enlarged group. Focus on cash flow - profitability, optimizing of cash flow and tight prioritising of capital expenditure in the current market and business environment.



- Loans total EUR 9,502 million
  - **Average interest rate for total portfolio 1.7%** (2019: 2.3%), including hedging cost of all loans of which EUR 641 million (2019: 787) is swapped to RUB with average interest including cost for hedging 7.5% (2019: 7.8%)
  - Average interest rate for euro denominated loans 0.8% (2019: 0.9%)
  - Including loans in Uniper group EUR 559 million

[1] In addition, Fortum has received EUR 351 million based on collateral agreements with several counterparties. This amount has been booked as a short term liability.

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Fortum’s financial targets under review after Uniper consolidation

Aim to set new targets by end of 2020 at the latest

By the end of the year at the latest, Fortum aims to set new long-term financial targets for the enlarged group and ambitious decarbonisation targets covering the combined operations of both companies.

- Following the consolidation of Uniper, the Group’s business profile has changed.
- Fortum’s long term financial targets for ROCE and net debt-to-EBITDA do not appropriately reflect the group’s business profile and are now under review
- Fortum will closely monitor that its net debt-to-EBITDA ratio remains at a level that ensures a credit rating of at least BBB.

Fortum’s dividend policy remains intact:

“Fortum’s dividend policy is to pay a stable, sustainable, and over time increasing dividend of 50-80% of earnings per share excluding one-time items.“

Outlook

Demand growth

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

Hedging

<u>Generation Nordic hedges:</u>

For the remainder of 2020: ~85% hedged at EUR 33 per MWh

For 2021: ~50% hedged at EUR 34 per MWh
(Q4: 40% at EUR 33)

<u>Uniper Nordic hedges:</u>
For the remainder of 2020: ~95% hedged at EUR 28 per MWh

For 2021: ~70% hedged at EUR 28 per MWh

For 2022: ~15% hedged at EUR 23 per MWh

2020 Estimated annual capital expenditure,

including maintenance and excluding acquisitions

EUR 700 million

Note: capital expenditure guidance does not include Uniper estimates

Fortum and Uniper share the view of the importance of credit rating and take it into account when making new capex decisions

Taxation

In 2020, the comparable effective corporate income tax rate for Fortum is estimated to increase from the 2019 level (22.4%) following the consolidation of Uniper


Q&A

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