



Interim Report January-September 2019

Fortum Corporation
24 October 2019

Strong results improvement and agreement on majority stake in Uniper

- Nordic spot power price down, -31% Y/Y
 - Achieved power price at EUR 35.7, up 1.1 EUR/MWh
- Reservoir levels around long-term average
- Comparable EBITDA at EUR 295 million, +28%
- Comparable operating profit at EUR 153 million, +59%
- Share of profits of associates and JVs at EUR 106 (12) million
- EPS at EUR 0.20 (0.05)
 - Items affecting comparability EUR -0.02 (-0.01)
 - Uniper contribution EUR 0.10 (-)
- Good cash flow from operating activities at EUR 262 (133) million
- Comparable Net debt/EBITDA at 3.2x (LTM)

Strategy
execution
continues

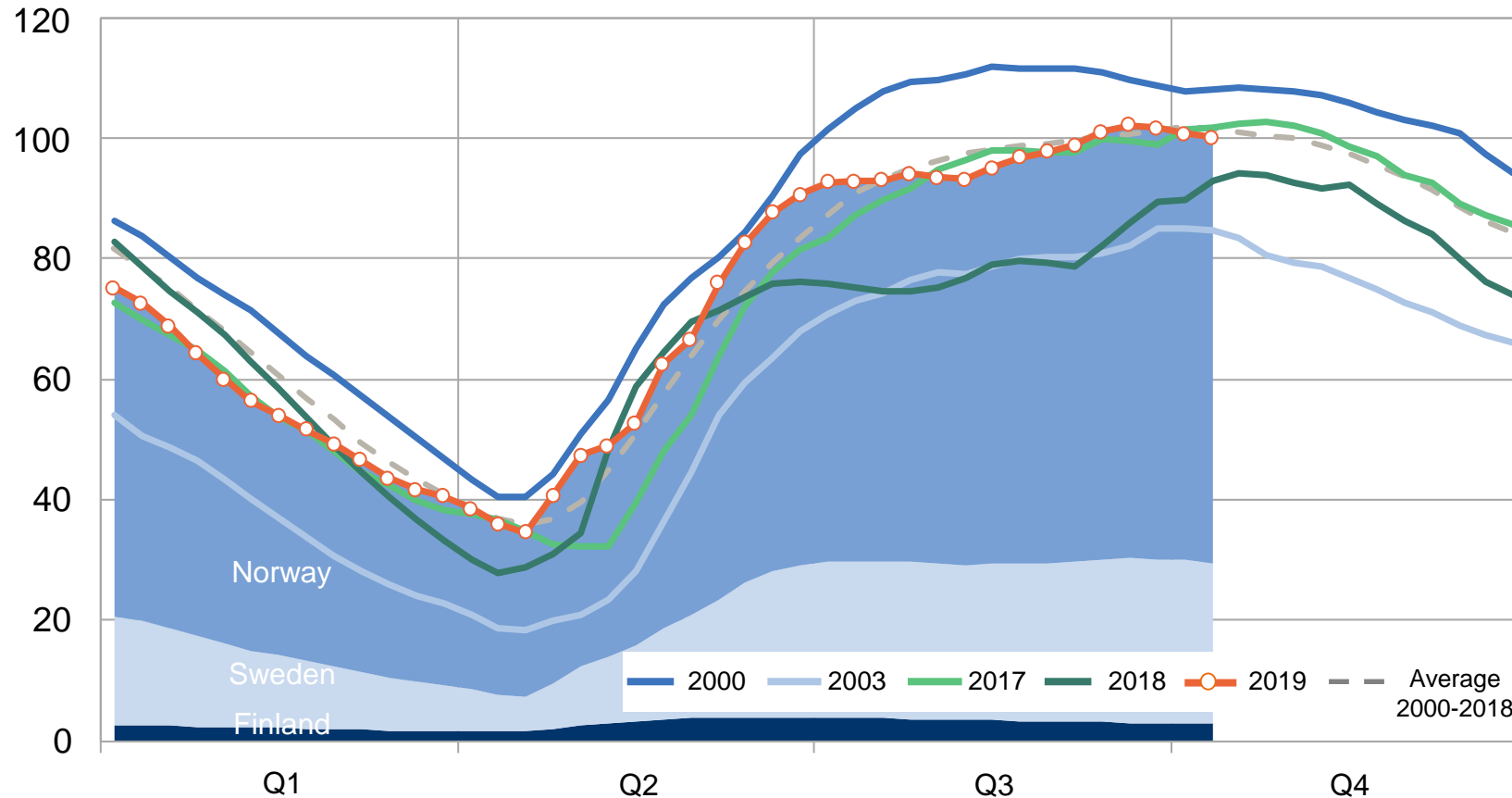
Fortum to acquire
at least 20.5% in
Uniper, Fortum's
ownership to be
>70.5%

Cash flow
measures
delivering – focus
on balance sheet

Espoo Clean
Heat:
carbon neutral
district heating in
2020's

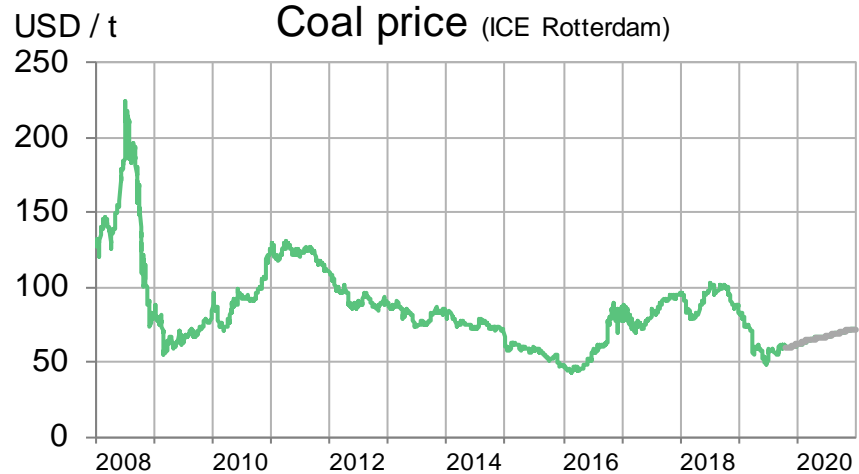
Nordic water reservoirs at the historical average level

Reservoir content (TWh)



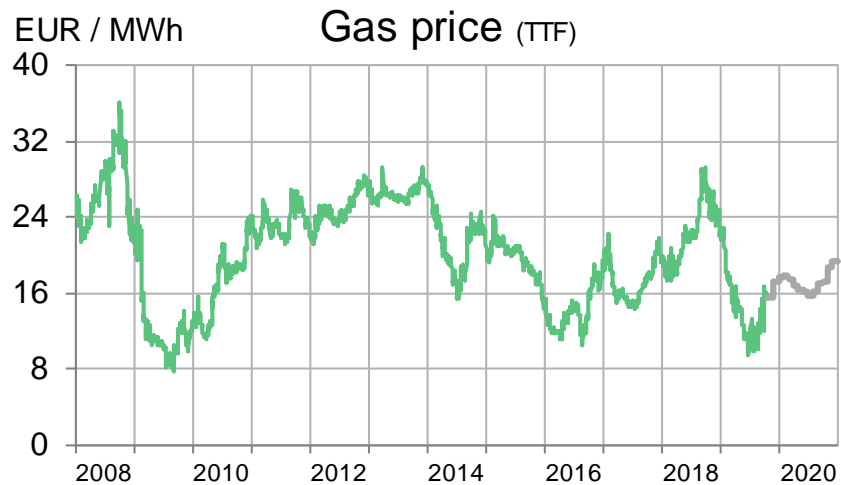
- Dry weather conditions during July and in the beginning of August resulted in a bit lower than normal inflows
- As a consequence, water reservoirs normalised during Q3
- Reservoirs currently somewhat below average level following dry and cold weather in early October

Weaker front gas price on oversupply, expiry of Ukraine-Russia transit agreement keeps winter prices at a high level



The coal market traded sideways during Q3: A slowdown in Chinese power demand growth burdens Chinese coal prices. The trend of falling coal prices in H1 halted due to some support from coal supply cutbacks.

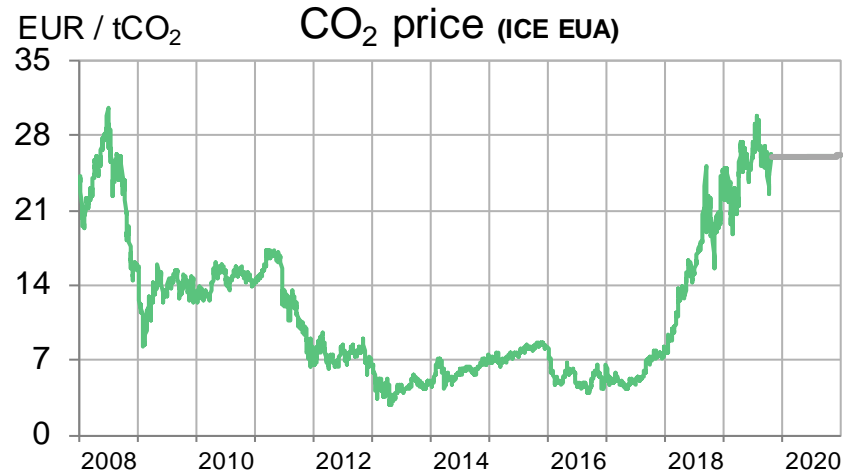
- Chinese industrial production growth Y/Y was 1.5% in July and 4.5% in August.
- Chinese domestic coal production also continued to rebound.
- Weak gas price contributed to a decrease in coal-for-power demand in the EU, raising coal inventory to high levels in Europe.



In the European gas market storages continued to build, reaching unprecedented highs, 98% filled end of Q3 suppressing the gas front.

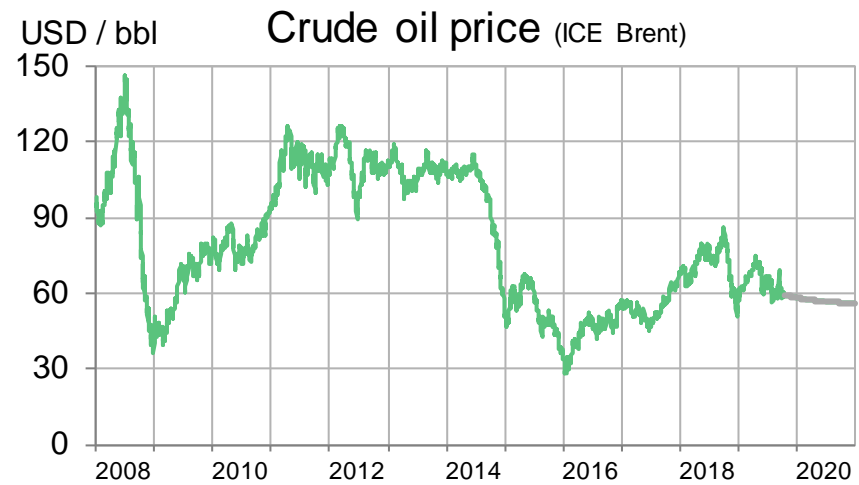
- Weak East Asian demand for LNG dampened global LNG prices.
- Concerns for gas disruptions on the back of the expiry of Ukraine/Russia gas transit agreement in the end of the year kept the winter prices high.

CO₂ price at year high in Q3 - declined after July due to increased Brexit risks



The CO₂ market declined during Q3 as the market grew increasingly worried over a Hard Brexit. Weaker industrial demand and soft crude oil also added weakness.

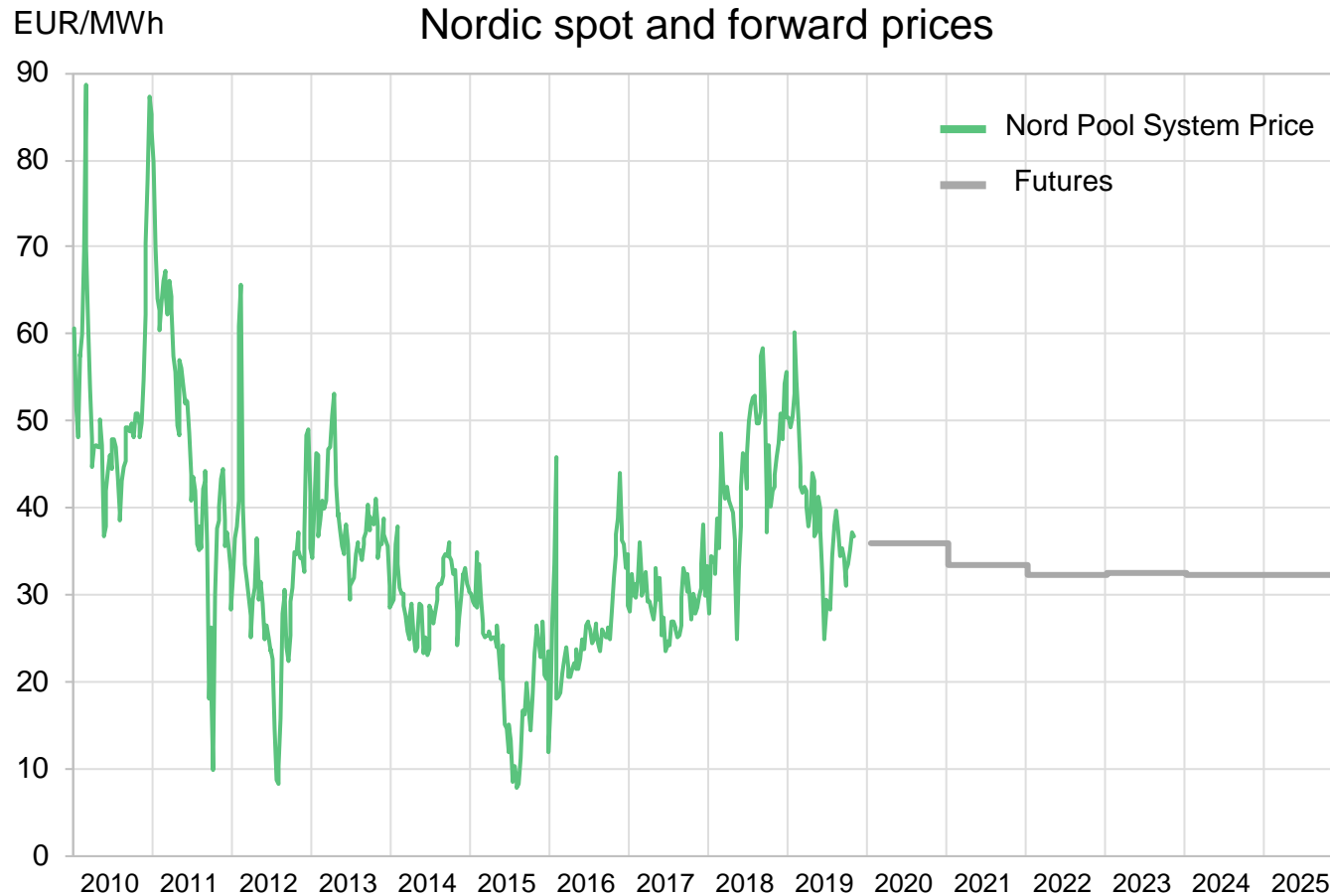
- The CO₂ price was relatively strong despite continuous weak front gas prices. This has increased the competitiveness of gas in power generation to record-high level. In general, the gas price is relatively strong for the coming winter and following year.
- The MSR (Market Stability Reserve) has fundamentally tightened the EUA market.



Crude oil weakened in Q3 as investor concerns over a global economic slowdown increases.

- Despite an unprecedented attack on Saudi oilfields, oil prices declined from the level in Q2. The attack temporarily reduced production by ~5.7 Mbd creating big price volatility.
- Concerns for lower oil demand and a looser supply-demand balance in 2020 had a negative impact on oil prices.

Nordic Q3 spot power price clearly lower than a year ago, -31%



- During Q3, the average Nord Pool system spot price was 34.7 EUR/MWh (50.5)
- The average area price was:
 - 47.8 EUR/MWh (53.5) in Finland
 - 35.6 EUR/MWh (52.2) in Sweden (SE3, Stockholm)
- The decline in Nordic spot prices during Q3 2019 was caused by the clearly stronger hydrological situation and very low Continental prices, mainly driven by lower gas prices.
- The Finnish spot price was supported by the scarce water situation in Finland hence it coupled a lot with the Baltic price areas.

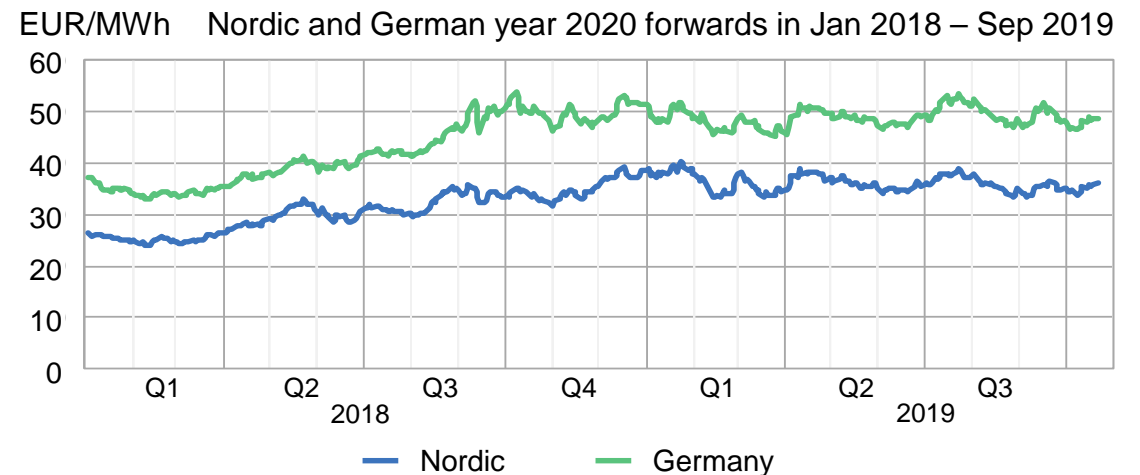
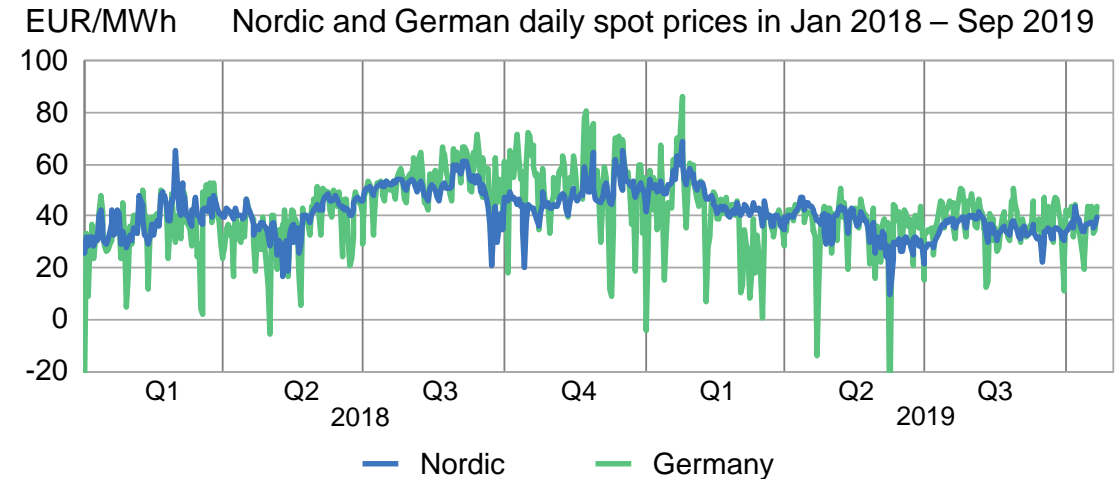
German-Nordic power price spread

SPOT PRICE

- During Q3 2019, the average spread was 2.7 EUR/MWh with the Nordic system average price at 34.7 EUR/MWh and German price at 37.4 EUR/MWh
- Continuously weak gas price and high generation from renewable energy sources contributed to the low German spot price. During September, Nordic prices weakened following the 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

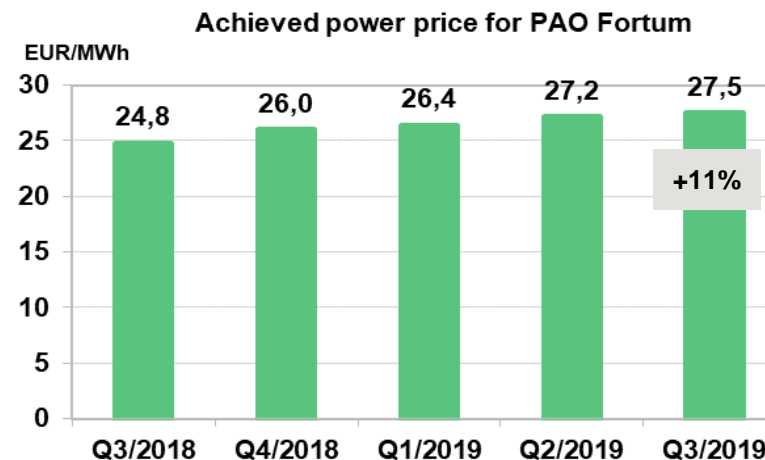
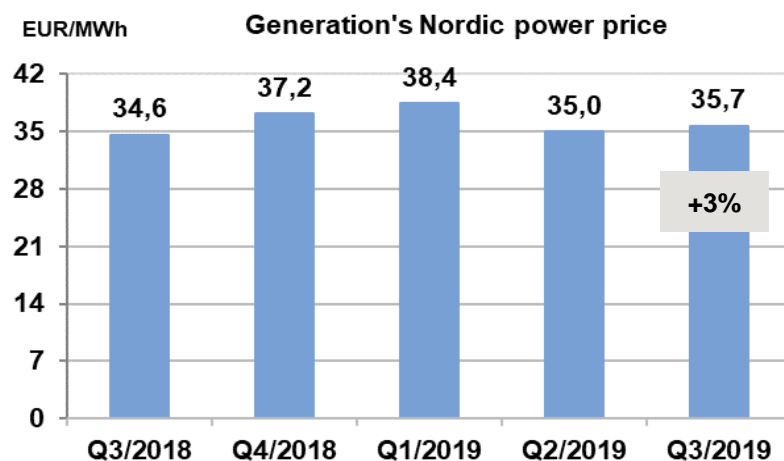
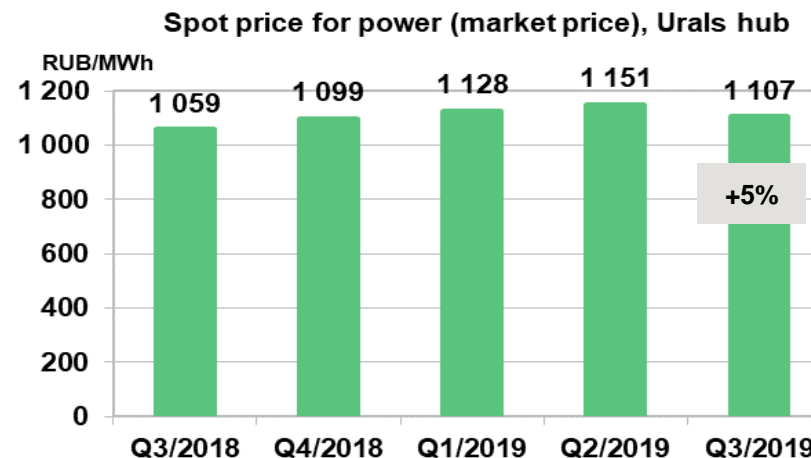
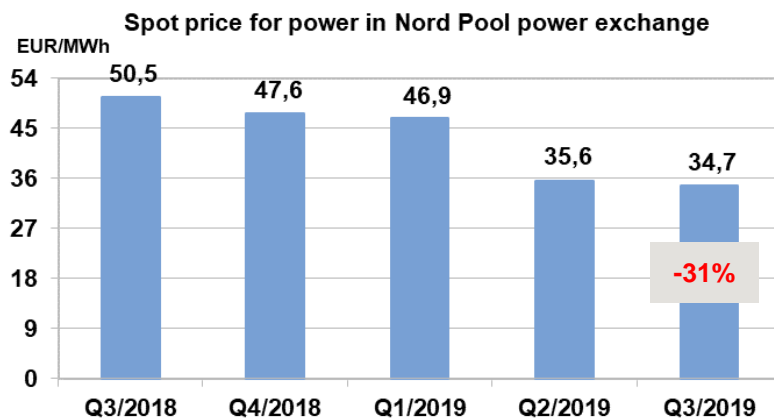
FORWARD PRICE

- During Q3 2019, the spread for 2020 delivery traded in the range 11.8-15.4 EUR/MWh, average at 13.6 EUR/MWh
- The German-Nordic spread is essentially determined by the supply-demand balance in the Nordics and on 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 21 October 2019
Source: Nord Pool, Bloomberg

Fortum's achieved power price +3% in Q3 despite lower Nordic power price – Russian achieved price +11%



Changes refer to year-on-year difference (Q3 2019 versus Q3 2018)
NOTE: Achieved power price (includes capacity payments) in roubles increased by 5%

Generation

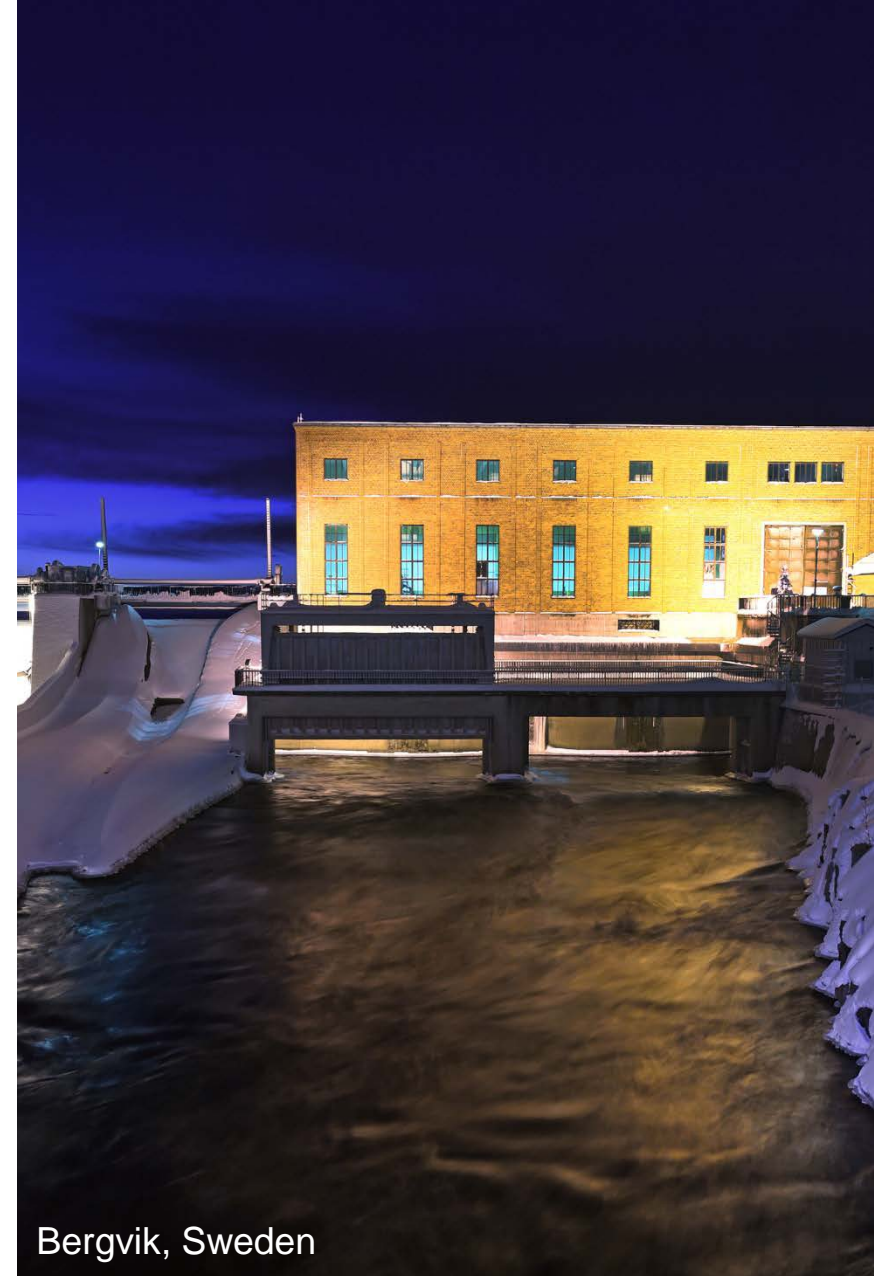
Q3 2019

- Higher achieved power price, +1.1 EUR/MWh, +3%
- Good operational performance and load factor
 - Higher hydro and nuclear volumes

Q1-Q3 2019

- Higher achieved power price, +2.7 EUR/MWh, +8%
- Good operational performance and load factor
 - Higher nuclear volumes

MEUR	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	2018	LTM
Sales	458	360	1,558	1,285	1,842	2,115
Comparable EBITDA	176	103	660	538	763	885
Comparable operating profit	140	69	555	440	628	743
Comparable net assets			5,953	6,072	6,485	
Comparable RONA %					10.8	13.0
Gross investments	81	72	184	170	262	276



Bergvik, Sweden

City Solutions

Q3 2019

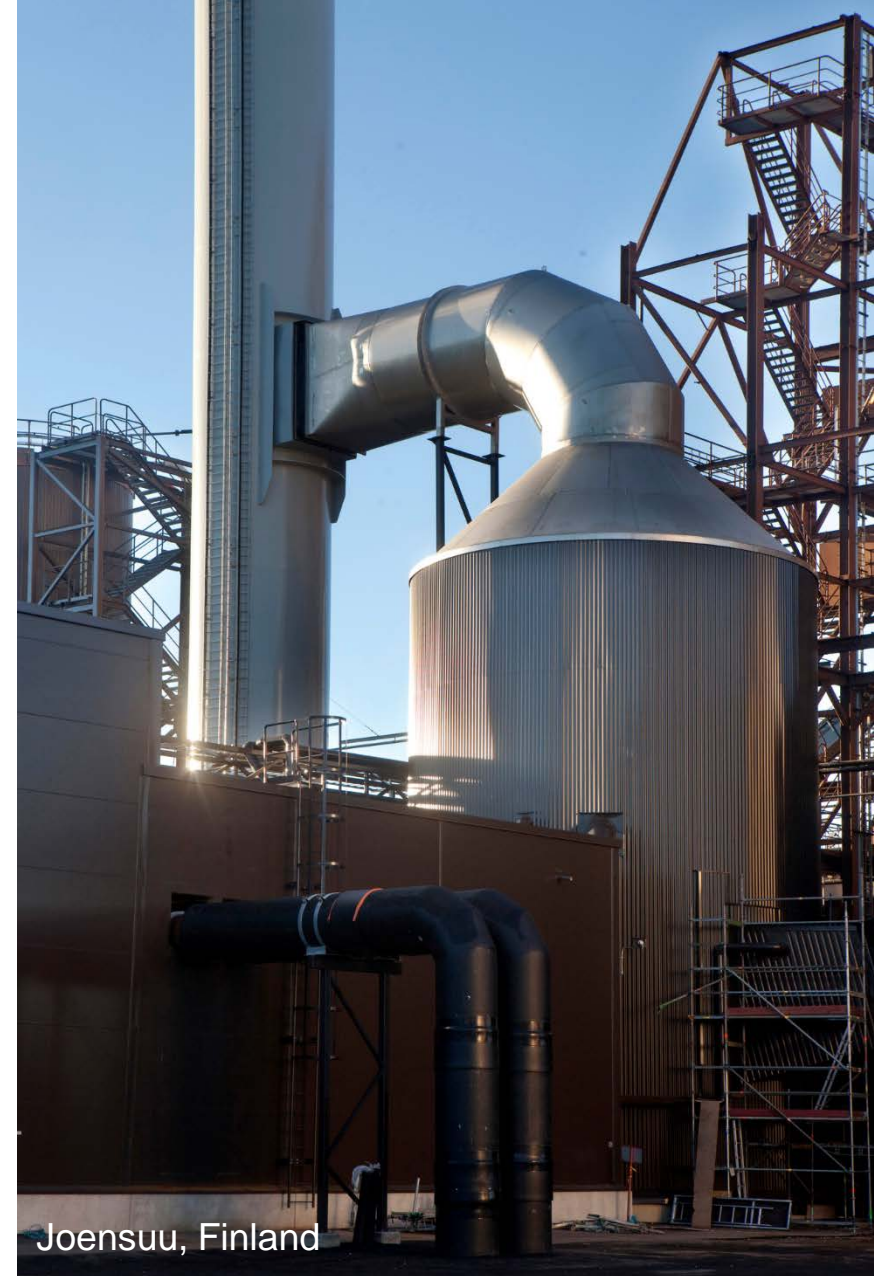
- Longer maintenance breaks at some CHPs
- Weaker performance in recycling and waste business
- Higher fuel and CO₂ costs

Q1-Q3 2019

- Q3 2018: EUR 26 million of profit from sale of solar stake

→ Potential corrective measures being reviewed in order to improve the performance

MEUR	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	2018	LTM
Sales	200	178	834	751	1,110	1,193
Comparable EBITDA	11	47	179	201	310	288
Comparable operating profit	-36	4	41	71	135	105
Comparable net assets			3,790	3,726	3,794	
Comparable RONA %					5.5	4.5
Gross investments	53	73	262	157	242	347



Consumer Solutions

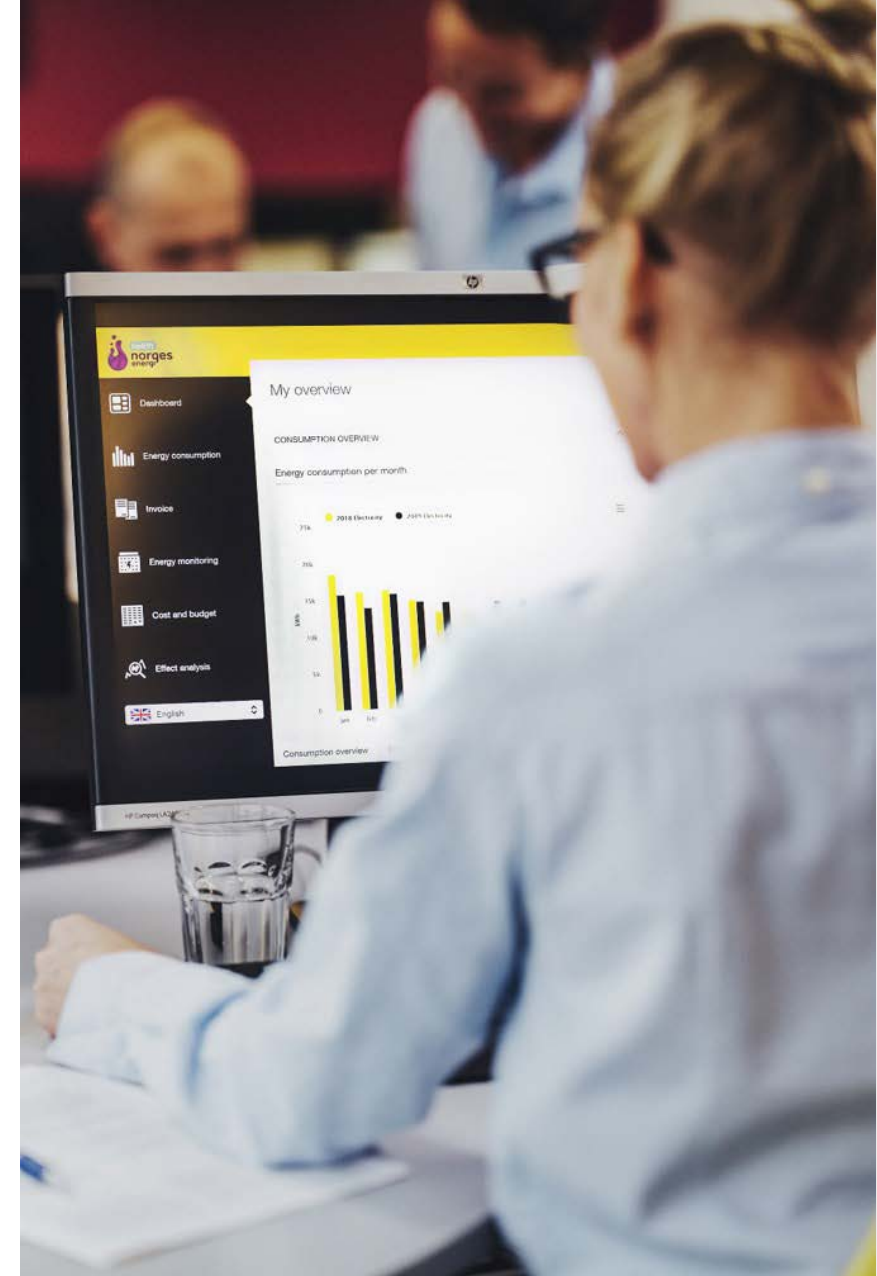
Q3 2019

- Higher sales margin
 - Active development of product and service offering
- Improved performance in Poland
- Continued competition with high customer churn in the Nordics

Q1-Q3 2019

- Higher sales margins
 - Favourable market conditions continued in H1, part of impact temporary
 - Active development of product and service offering

MEUR	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	2018	LTM
Sales	311	332	1,326	1,204	1,759	1,881
Comparable EBITDA	31	22	106	79	110	137
Comparable operating profit	16	7	60	36	53	77
Comparable net assets			564	631	648	
Customer base, million			2.40	2.47	2.47	
Gross investments	13	12	39	33	47	53



Russia

Q3 2019

- Improved result in heat business
- Higher electricity margins
- FX impact EUR 5 million

Q1-Q3 2019

- Higher electricity margins and CSA payments
- Lower bad-debt provisions
- Heat distribution business transferred to Yustek JV
- FX impact EUR -2 million

In 2019, no new units will receive higher CSA payments

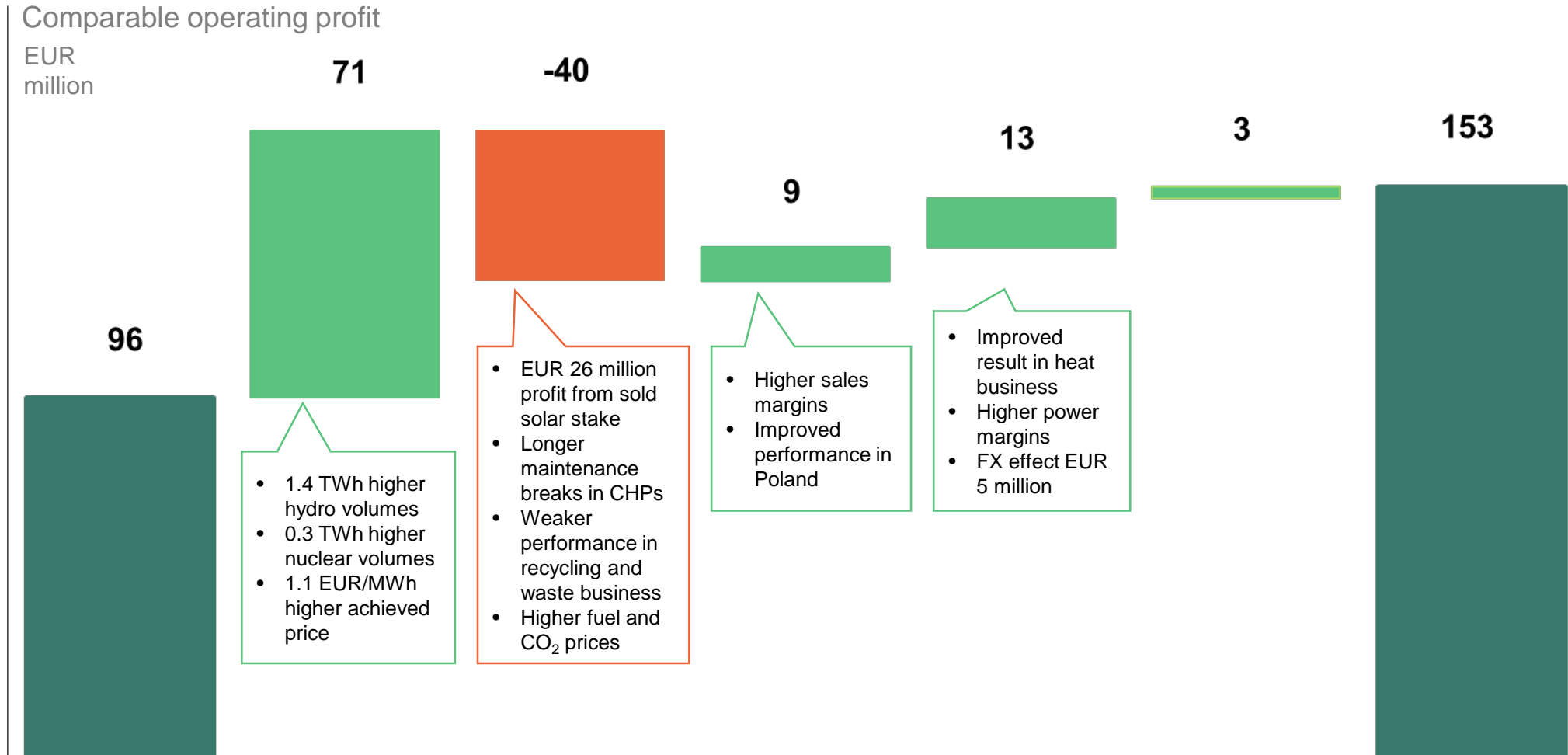
MEUR	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	2018	LTM
Sales	229	200	765	764	1,069	1,070
Comparable EBITDA	91	76	333	291	417	459
Comparable operating profit	53	40	222	182	271	311
Comparable net assets			3,098	2,853	2,789	
Comparable RONA %					10.3	12.4
Gross investments	16	11	35	51	117	101

CSA=Capacity Supply Agreements

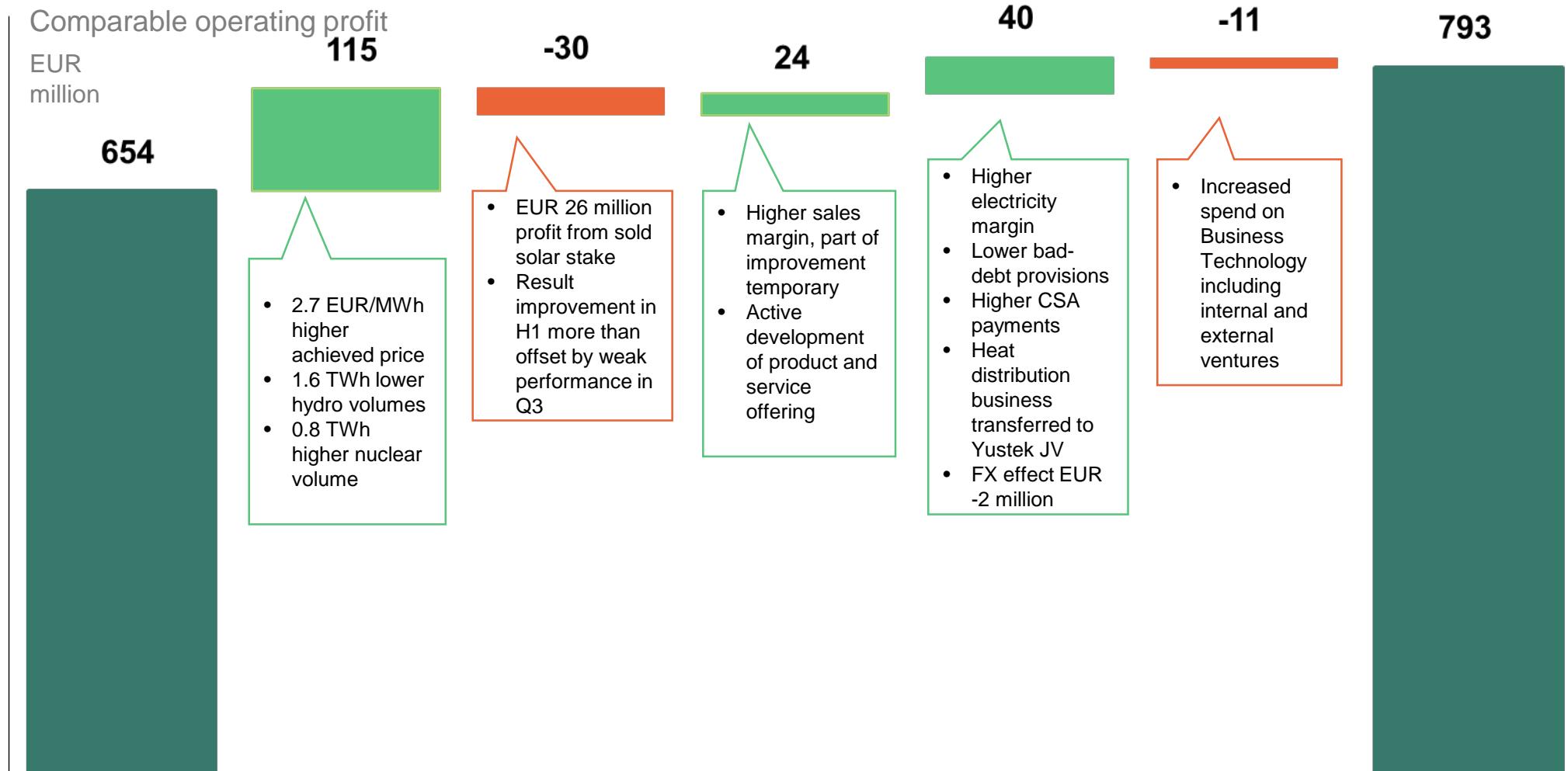


Nyagan, Russia

Q3 2019 – Strong performance in Generation, disappointing performance in City Solutions



Q1-Q3 2019 – solid performance in Generation and Russia



Accelerating strategic realisation from Uniper investment

- Fortum has entered into a transaction agreement with Elliott and Knight Vinke to acquire at least an additional 20.5% in Uniper for approximately EUR 2.3 billion, corresponding to EUR 29.93 per share, taking its ownership to at least 70.5%
- Closing of transaction is subject to regulatory clearance in Russia and the US
- Fortum intends to be represented on Uniper's Supervisory Board commensurate with its ownership without delay
- Fortum offers comprehensive commitments to Uniper's employees and rules out a domination and/or profit and loss transfer agreement or squeeze-out for at least two years
- Transaction financed with existing cash and credit facilities underwritten by Barclays Bank PLC, with Fortum committed to maintaining an investment grade rating post transaction

Creating a leader in the European energy transition

- Transaction delivers on Fortum's vision and strategy, investing in a diversified European power generation with attractive hydro, nuclear and gas assets and a platform for growth
- Fortum and Uniper have the strategic mix of businesses and expertise required to successfully drive Europe's transition from conventional to cleaner and more secure energy
- As a responsible and committed parent company, Fortum looks forward to working with Uniper's management team and employees on the creation and implementation of a joint vision
- Fortum is committed to protecting the core interests of Uniper's employees and to providing attractive prospects

Transaction highlights

Agreement

- Fortum has entered into agreements with Elliott and Knight Vinke to acquire in excess of 20.5% in Uniper for approximately EUR 2.3 billion, corresponding to EUR 29.93 per share, increasing Fortum's share in Uniper to more than 70.5% and the total investment in Uniper to approximately EUR 6.2 billion (average price paid EUR 23.97 per share)
- Fortum rules out a domination and/or profit and loss transfer agreement (DPLTA) or squeeze-out for a period of at least two years
- Fortum intends to be represented on Uniper's Supervisory Board commensurate with its ownership without delay
- Fortum offers commitments to Uniper's employees and seeks continued dialogue with employee representatives

Regulatory approvals

- Closing of the transaction, subject to customary regulatory clearances in Russia and the United States, is expected by the end of the first quarter of 2020. Fortum is in discussions with the Russian state authorities and has made a preparatory filing to the Russian Federal Antimonopoly Service
- No further European Commission clearance is required; in 2018, Fortum already received unconditional merger clearance from the Commission

Financials

- Fortum will fully consolidate Uniper as a subsidiary in its financial statements from closing of the transaction
- The transaction will be financed with existing cash resources and committed credit facilities underwritten by Barclays Bank PLC
- Fortum is committed to maintaining an investment grade rating post transaction and to strengthening its financial profile longer term, which will provide appropriate financial stability and support to the enlarged group

Key financials

MEUR	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	2018	LTM
Sales	1,060	971	3,894	3,643	5,242	5,493
Comparable EBITDA	295	230	1,213	1,051	1,523	1,685
Comparable operating profit	153	96	793	654	987	1,126
Operating profit	124	91	666	829	1,138	975
Share of profits of associates and joint ventures	106	12	678	82	38	634
Profit before income taxes	198	45	1,274	779	1,040	1,535
Earnings per share, EUR	0.20	0.05	1.27	0.73	0.95	1.48
Net cash from operating activities	262	133	1,753	767	804	1,790

Q1-Q3 2019:

- Comparable operating profit mainly supported by Generation and Russia
- Share of profits from associates of EUR 678 million
 - Uniper EUR 534 million:
 - EUR 218 million underlying result
 - EUR 293 million non-operating result
 - EUR 23 million reversal of fair value adjustment
- EPS EUR 1.27
 - Items affecting comparability -0.11 (0.17)
 - Uniper impact 0.60 (-)

Income statement

MEUR	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	2018	LTM
Sales	1,060	971	3,894	3,643	5,242	5,493
Other income	20	47	65	89	130	106
Materials and services	-533	-545	-1,976	-1,925	-2,795	-2,846
Employee benefits	-110	-105	-355	-340	-459	-474
Depreciations and amortisation	-143	-134	-421	-397	-536	-560
Other expenses	-142	-138	-415	-417	-594	-592
Comparable operating profit	153	96	793	654	987	1,126
Items affecting comparability	-29	-5	-127	175	151	-151
Operating profit	124	91	666	829	1,138	975
Share of profits/loss of associates and joint ventures	106	12	678	82	38	634
Finance costs - net	-32	-58	-70	-132	-136	-74
Profit before income tax	198	45	1,274	779	1,040	1,535
Income tax expense	-25	1	-134	-118	-181	-197
Profit for the period	173	46	1,140	661	858	1,337

Q1-Q3 2019

- Share of profits from associates include Uniper share of EUR 534 million
- Finance costs – net
 - Net financial expenses include EUR +40 million from nuclear technical update in Q2
 - EUR 13 million cost related to repayment of bridge financing for Uniper investment in Q1

Cash flow statement

MEUR	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018	2018	LTM
Comparable EBITDA	295	230	1,213	1,051	1,523	1,685
Realised FX gains/losses	1	72	11	205	231	37
Paid net financial costs, income taxes and other	-85	-81	-255	-280	-341	-316
Dividends received	10	0	239	53	61	247
Change in working capital	15	-81	201	35	-146	20
Change in settlements for futures	26	-8	342	-298	-524	116
Net cash from operating activities	262	133	1,753	767	804	1,790
Capital expenditures	-160	-142	-529	-394	-579	-714
Acquisitions of shares	-21	-163	-37	-3,913	-4,088	-212
Divestments of shares and capital returns	20	88	51	258	259	52
Change in cash collaterals and restricted cash	-2	89	320	-87	-36	371
Other investing activities	47	-19	33	31	46	47
Cash flow from investing activities	-116	-147	-162	-4,107	-4,398	-453
Cash flow before financing activities	146	-14	1,591	-3,340	-3,594	1,337
Paid dividends to the owners of the parent	0	0	-977	-977	-977	-977
Paid dividends to non-controlling interests	0	-2	-23	-5	-5	-23

Q1-Q3 2019

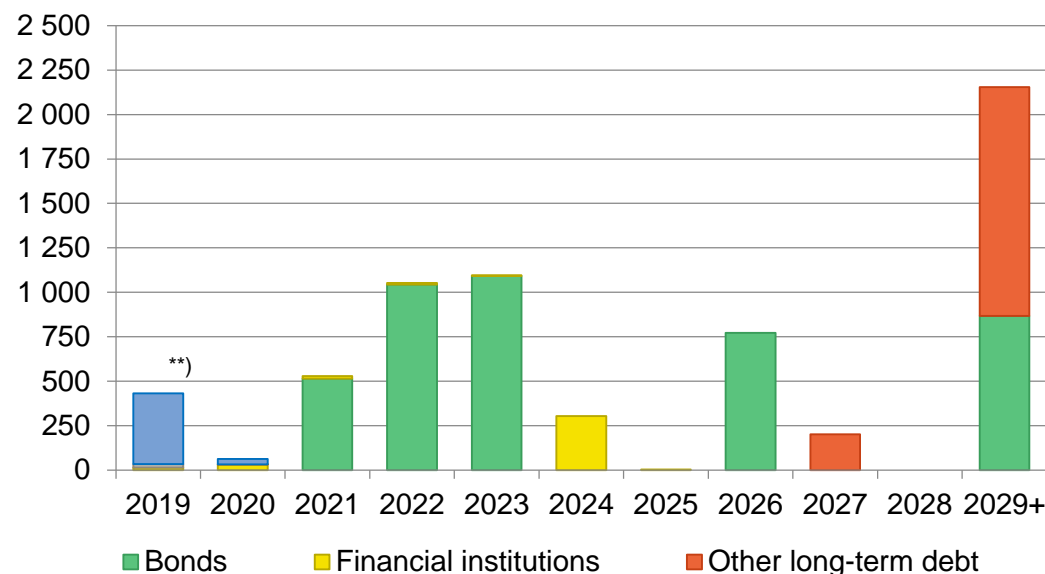
- Cash flow strengthened due to improvement of EUR 162 million in comparable EBITDA, change in settlements for futures EUR 342 million, working capital EUR 201 million and dividends received from associates EUR 239 million
- Acquisition of shares in 2018 mainly related to investment in Uniper shares

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

	LTM	2018	TARGET
Comparable EBITDA, MEUR	1,685	1,523	
Interest-bearing net debt, MEUR	5,367	5,509	
Comparable net debt/EBITDA ratio ^{*)}	3.2x	3.6x	Around 2.5x
Return on capital employed (ROCE), %	9.0	6.7	At least 10%

- Liquid funds of EUR 1.4 billion
- Undrawn committed credit lines of EUR 1.8 billion, of which EUR 1.75 billion is maturing in June 2023
- Total loans and borrowings of EUR 6,700 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 779 million (2018: 686) swapped to RUB, average interest cost including cost for hedging 8.4% (2018: 8.3%)
 - Other short-term debt includes new non-cash collaterals and settlement

Debt portfolio and average interest rate at end of Q3 2019



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 (Q2: 80% at EUR 33)

For 2020: ~70% hedged at EUR 33 per MWh (Q2: 60% at EUR 31)

For 2021: ~35% at EUR 33 per MWh

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

Q&A



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