Financial Statements 2018

Fortum Corporation

1 February 2019

2018 Highlights

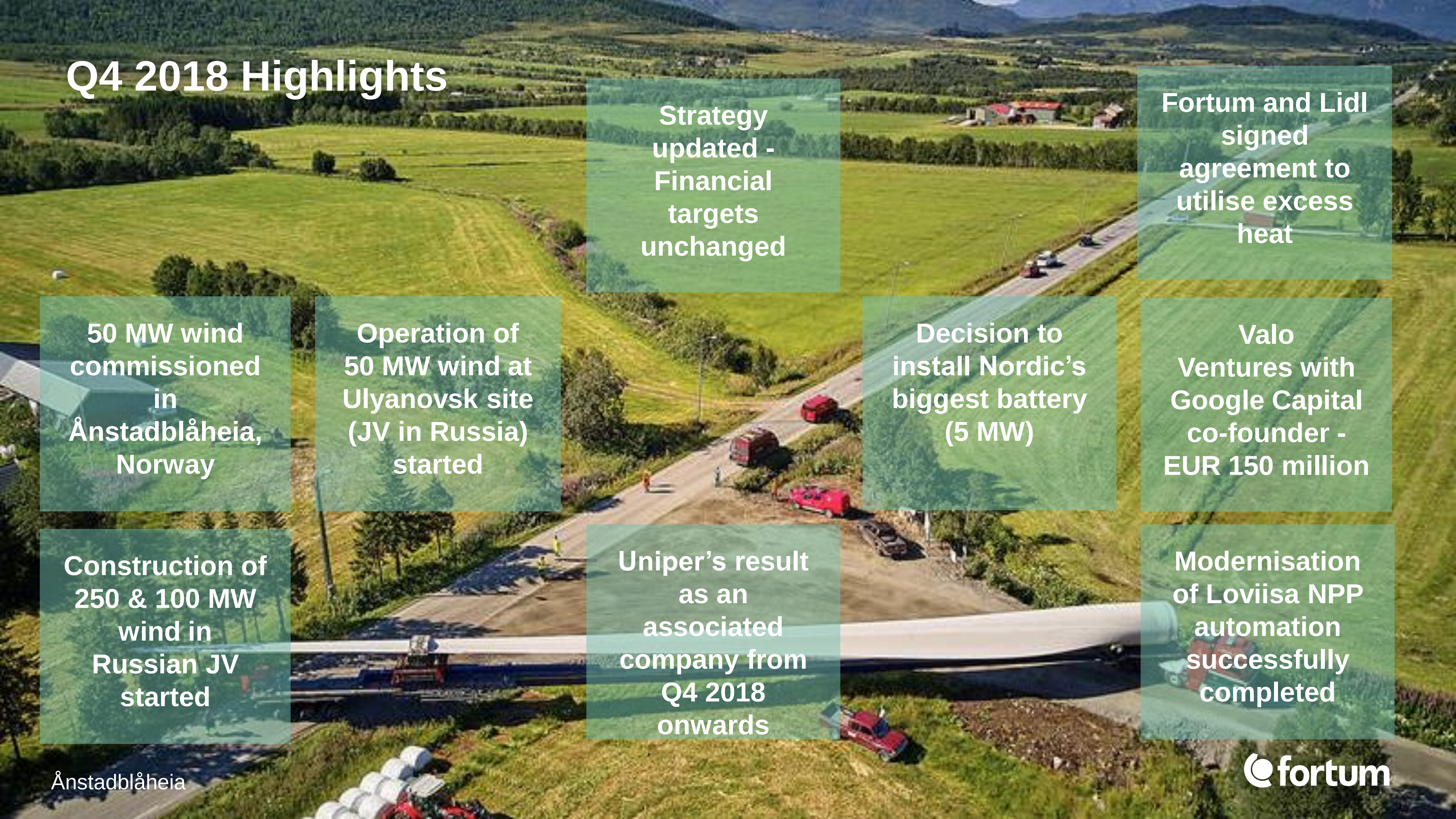
- Strategy updated – financial targets and dividend policy unchanged
- Uniper as an associated company
  - Year-end ownership 49.99%
- Higher Nordic power price in 2018
- Low hydro inflows and reservoir levels
- Volatile commodity and CO_2 prices
  - CO_2 price tripled during the year
- Comparable EBITDA at EUR 1,523 million, +19%
- Comparable operating profit at EUR 987 million, +22%
- EPS at EUR 0.95 (0.98)
  - Items affecting comparability EUR 0.15 (0.38)
- Balance sheet discipline with focus on cash flow continues

- The Board of Directors proposes dividend for 2018 unchanged at EUR 1.10 per share

Q4 2018 – Higher achieved price and nuclear volumes partly offset by lower hydro volumes

- Nordic power price up +56% in Q4 Y/Y
- Low hydro inflows and reservoir levels
- Volatile commodity and CO_2 prices
- Comparable EBITDA at EUR 473 million, +12%
- Comparable operating profit at EUR 333 million, +13%
- EPS at EUR 0.22 (0.28)
  - Items affecting comparability EUR -0.02 (0.01)
- Cash flow from operating activities totalled EUR 38 (295) million
  - Mainly due to change in working capital (including change of settlements for futures)

Q4 2018 Highlights



Strategy updated - Financial targets unchanged

Fortum and Lidl signed agreement to utilise excess heat

50 MW wind commissioned in Ånstadblåheia, Norway

Operation of 50 MW wind at Ulyanovsk site (JV in Russia) started

Decision to install Nordic's biggest battery (5 MW)

Valo Ventures with Google Capital co-founder - EUR 150 million

Construction of 250 & 100 MW wind in Russian JV started

Uniper's result as an associated company from Q4 2018 onwards

Modernisation of Loviisa NPP automation successfully completed

Ånstadblåheia

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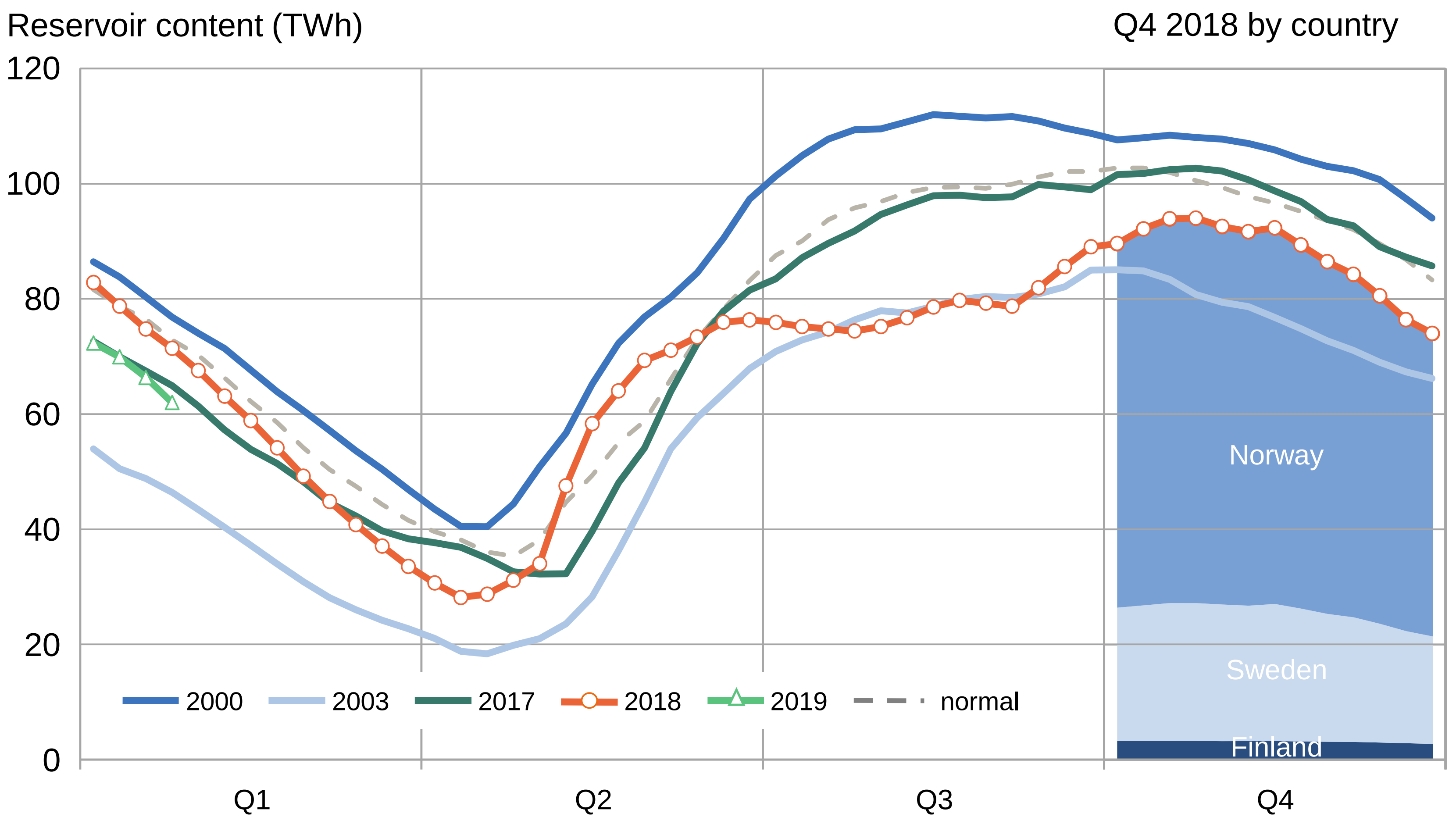
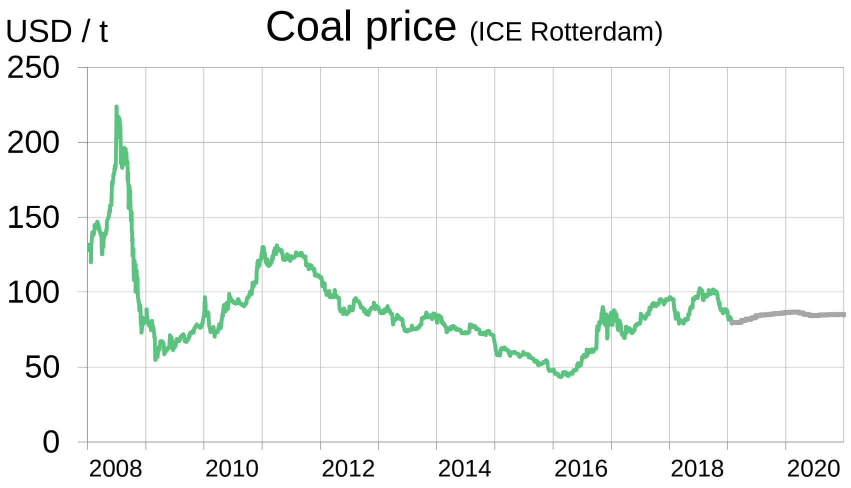
Nordic water reservoirs in Q4 below reference and 2017 levels – some improvement since the historically low levels in Q3

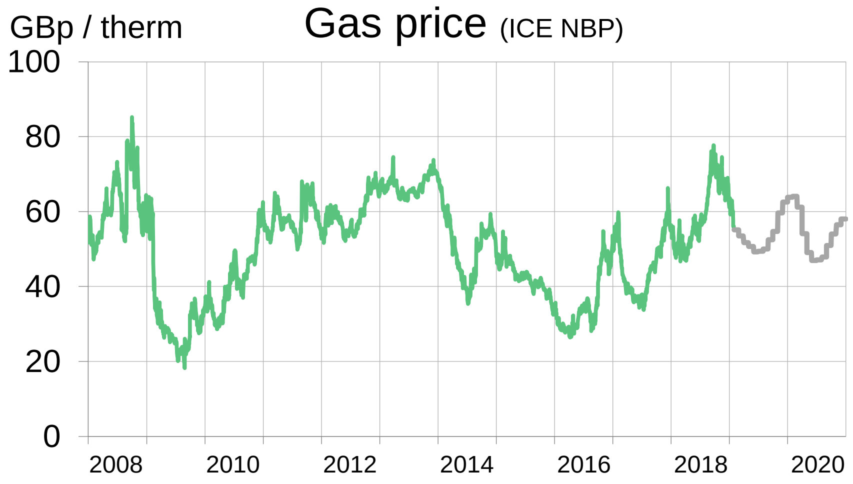


- Year 2018 was characterised by very dry first half and high precipitation during the fall
- Earlier and more rapid than normal spring flood temporarily increased reservoirs above normal levels
- Record rains in Norway in August-September increased the water reservoir levels closer to the normal level rapidly
- November-December were again dry, thus reservoir declined versus the normal and ended 9 TWh below the normal and 12 TWh below last year

Source: Nord Pool

Volatile coal and gas prices





The global coal market was supported by continued strong demand growth in China in the first half of the year, requiring strong import volumes from the international market

- However, China's macroeconomic outlook began to weaken towards the end of the year, which put the coal market into a wait-and-see mode
- The wider financial market sell-off lowered prices in the coal market in October,
- In 2018, Chinese power generation from coal rose by some 6%, still indicating strong demand growth, but domestic production has also showed signs of rebound towards the end of the year, with official data suggesting a 5.2% Y/Y production increase in 2018 overall

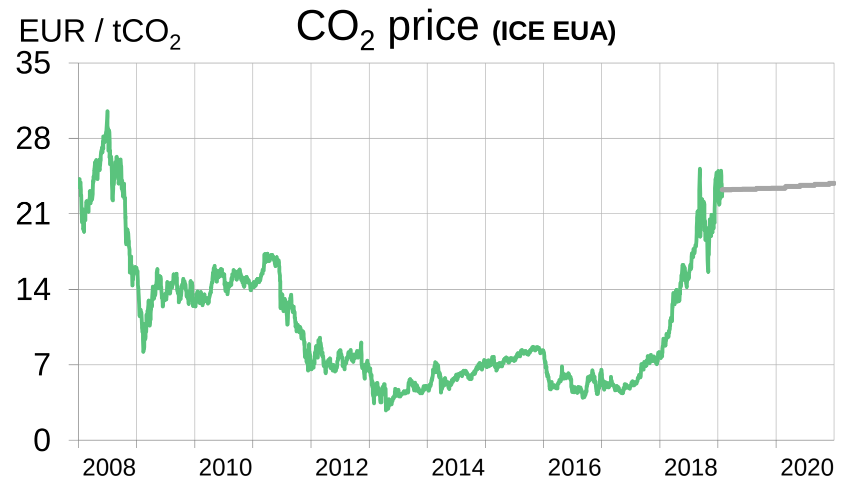
The European gas market was very bullish in 2018 despite a decrease in overall gas consumption

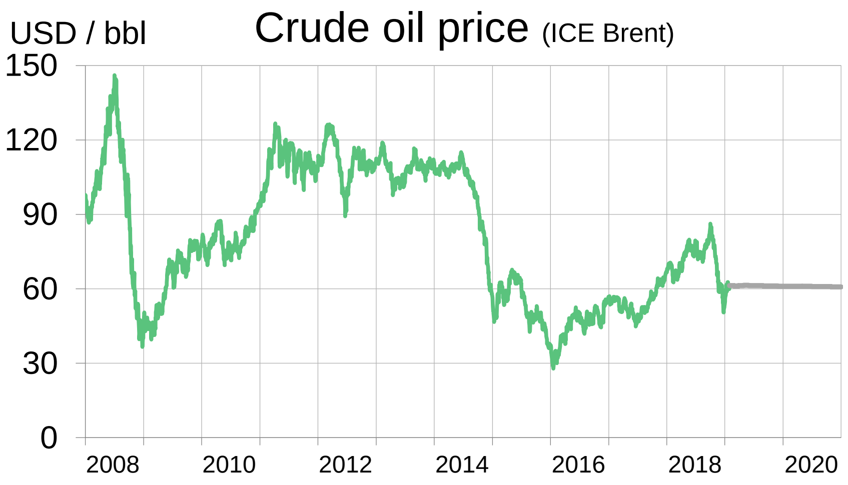
- Internal: low storage levels due to cold end of winter led to high storage injection demand during the summer
- Northwest Europe decreased summer gas-for-power demand in order to make room for the injections, as supplies were tight
- External: the strong EUA market supported the gas price, signalling more power sector demand for the fuel, leading to a circle where EUAs and gas chased each other upward

Source: ICE, Thomson Reuters

Market prices 29 January 2019; 2019-2020 future quotations

CO_2 price tripled in 2018





The EU ETS experienced a major upheaval as the market digested the effects of the Market Stability Reserve, started in 2019 to virtually eliminate the surplus of allowances by 2023

- The EUA price tripled during 2018 anchored in the European coal-to-gas switching range, connecting the EUA price onto the wider fuel complex
- Part of the EUA strength was triggered by the rising gas prices, which made the needed fuel-switching more expensive

Crude oil markets were characterised by demand growth well above long-term averages in 2018, which made the OPEC+ production cuts very effective in increasing prices

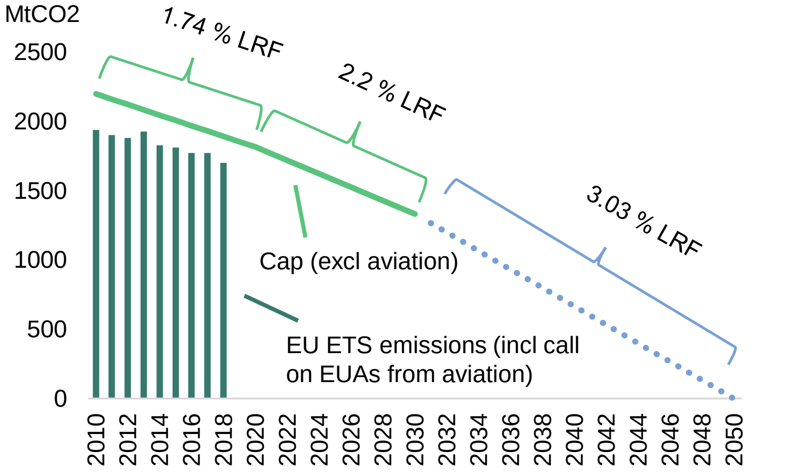
- Oil prices strengthed until October despite continued strong gains in US crude oil production, with an overall Y/Y increase reaching 20%
- In October, the sentiment in the financial markets radically shifted and oil declined sharply on the back of weaker demand and inflation expectations

Source: ICE, Thomson Reuters

Market prices 29 January 2019; 2019-2020 future quotations

The MSR introduces tightness to carbon market – in 2018 coal-to-gas switching was modest due to high gas price

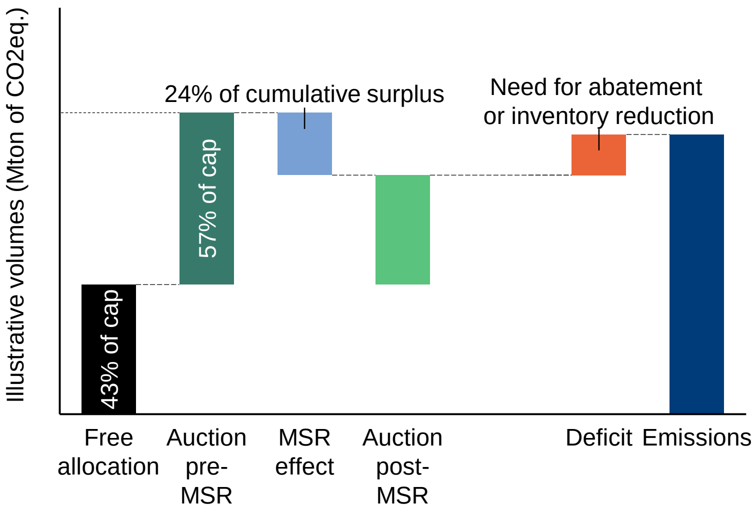
Linear reduction factor (LRF) tightens the market



- Linear reduction factor (LRF) is the percentage of baseline supply[1] by which the annual supply of allowances (cap) is reduced every year. LRF is set at
  - 1.74% for 2013-2020 (equals to a reduction of 38 MtCO_2/year)
  - 2.2% for 2021-2030 (equals to a reduction of 48 MtCO_2/year)
- In total, emissions are set to decrease by 43% by 2030 vs. 2005
- Next LRF review is scheduled for 2024
  - 3.03% LRF from 2030 onwards would deliver net zero emissions by 2050

[1] Average annual total quantity of allowances released in 2008-2012.

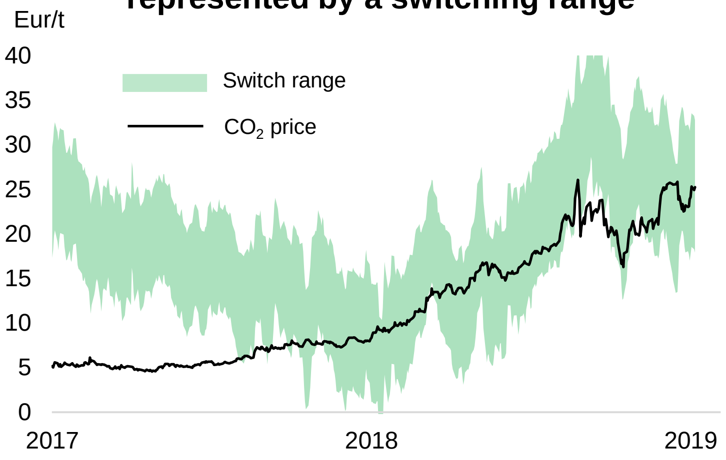
Market stability reserve restores scarcity by reducing future auction volumes



- When TNAC[2] > 833 Mt, MSR deducts 24% of the TNAC from the auction volume each year placing them into the reserve during 2019-2023
  - MSR rate is 12% during 2024-2030
- When TNAC < 400 Mt, MSR releases 100 million EUAs annually from the reserve adding them to future auctions
- 900 million backloaded allowances from 2014-2016 will be transferred into the MSR in 2019-2020
- As from 2023, allowances in MSR above the total number of allowances auctioned during the previous year will be cancelled
- Next MSR review is scheduled in 2021

[2] TNAC = total number of allowances in circulation = supply – (demand + allowances in the MSR). According to the latest publication May 15, 2018 the TNAC corresponds to 1655 million allowances.

Abatement from coal to gas switching depends on coal and gas prices, together represented by a switching range



- CO2 price has more than tripled since November 2016, when the final decision was reached on the future EU ETS rules, including the intake rate of the Market Stability Reserve, which became operational in January 2019
- The EUA market is in a process of finding the appropriate price at which enough fuel-switching occurs in order to balance supply and demand
  - This price is heavily dependent on the prices of gas and coal, illustrated by the coal-to-gas switching channel
- In practice, then, the gas/coal price relationship has become a major price anchor for the EUA

Efficiency assumptions in switching range; at low-end: gas 52% and coal 34%; at high-end: gas 49% and coal 36%. O&M cost assumptions apply.

Regulatory update

- COP24 agreed on the operational rules for the Paris Agreement
  - Rules on market mechanisms and global carbon markets still pending
- The EU 2050 climate strategy sets the long-term framework
  - Targets and policy measures for 2030-2050 to follow
- The German Coal Commission’s report published
  - Closing both nuclear and coal underlines the importance of gas during the transition phase
  - Detailed rules still to be developed – for company-specific assessment
- Sustainable financing rules affect the entire EU financing sector
  - Technology neutral and market-based taxonomy system required
- Brexit
  - The impact of no-deal Brexit on the EU energy market not expected to be significant
  - Hard Brexit would lead to a sudden UK exit from the EU ETS

German Coal Commission hands over its proposal to the government – Coal to be phased out in 2038 at the latest

- Holistic and responsible approach to phasing out coal-fired generation – government now to enforce
- Roadmap for capacity closures agreed
  - 12.5 GW by 2022 (compared to 42.5 GW in 2017)
  - Additional 13 GW by 2030
  - Latest 2038 all remaining capacity
- Affected companies and regions to be compensated
  - Level of compensation to power plant operators remains open
  - Coal regions would receive EUR 40 billion during the next 20 years to mitigate negative structural changes
  - EUR 2 billion annual compensation to customers in lower grid fees and/or taxes proposed to reduce impact of expected hike in power price
- Respective amount of CO_2 allowances to be cancelled in the EU Emission Trading Scheme (ETS)

”We welcome the Coal Commission’s proposal and hope that the government will swiftly address the details necessary for the implementation.

The proposal highlights the importance of gas during the transition towards a fully decarbonised energy system and underlines the need for every utility to have a solid decarbonisation strategy.”

- Fortum

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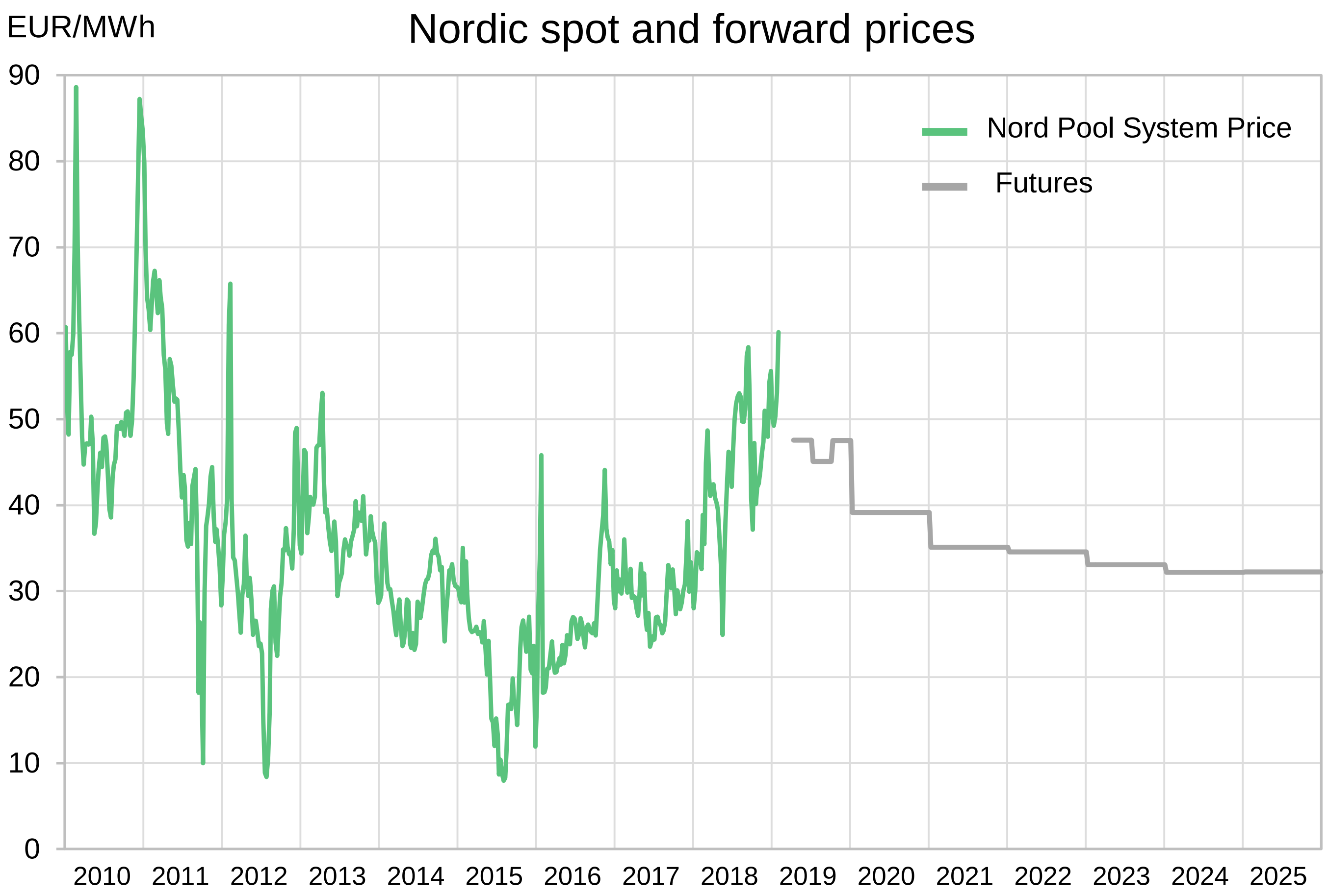
Nordic power price recovery continued



- In 2018, the average system spot price in the Nord Pool was 44.0 EUR/MWh (29.4), the average area price in Finland was 46.8 EUR/MWh (33.2) and in Sweden (SE3, Stockholm) 44.5 EUR/MWh (31.2)
- In Q4 2018, the average system price in the Nord Pool was 47.6 EUR/MWh (30.6), the average area price in Finland was 49.6 EUR/MWh (33.0) and in Sweden (SE3, Stockholm) 48.2 EUR/MWh (31.1)
- The main reasons for the increasing spot price, both for the full year and Q4 2018, compared to year 2017, were clearly higher cost of coal condense and drier hydrology

29 January 2019
Source: Nord Pool, Nasdaq Commodities

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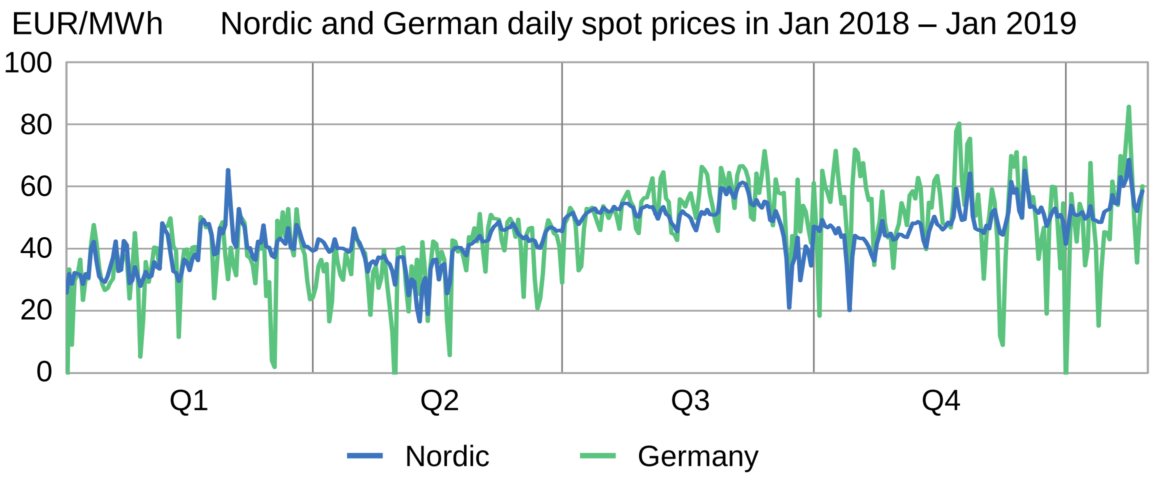
German – Nordic price spread

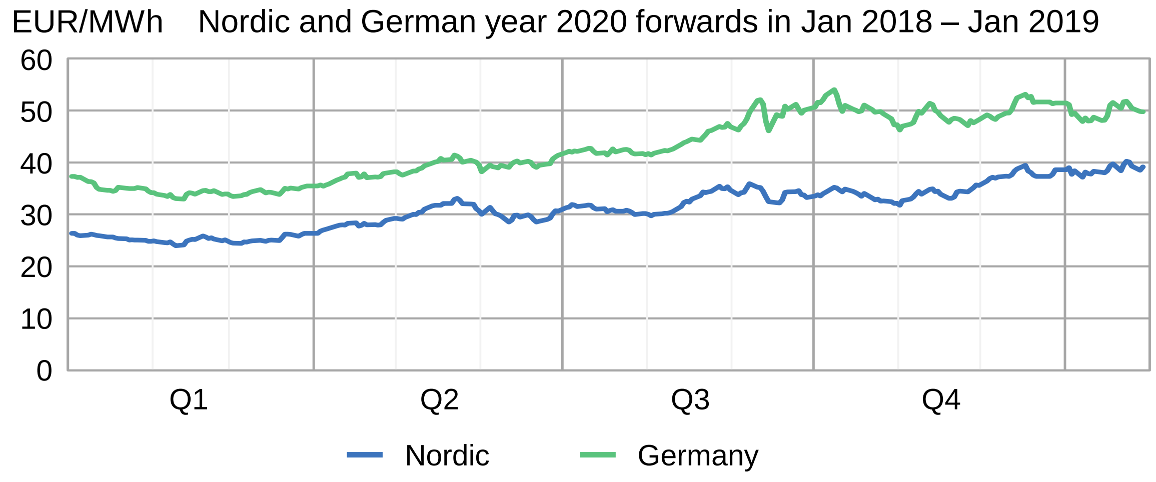
SPOT PRICE

- In 2018, the spread was 0.5 EUR/MWh with the Nordic system price at 44.0 EUR/MWh and German price at 44.5 EUR/MWh
- During 2012-2018, the average realised German-Nordic spot spread was 4.6 EUR/MWh, varying in the range of -1-15 EUR/MWh on an annual level
- Realised German-Nordic spread is influenced by realised supply and demand fundamentals in the Continental Europe and Nordic areas

FORWARD PRICE

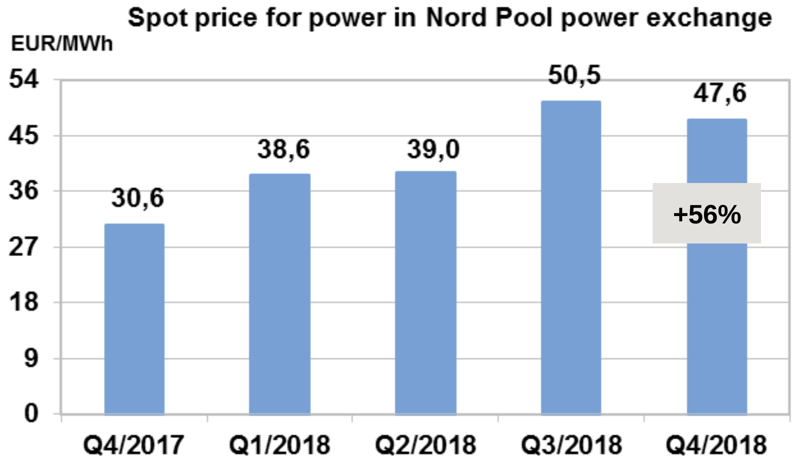
- During 2018, the spread for 2020 delivery traded in the range 6.8-19.3 EUR/MWh, avg. 11.4 EUR/MWh.
- Expected supply/demand balance in the Nordic area and in Continental Europe has an effect on the spread: investments in new interconnector capacity, growth of demand and new renewables as well as amount of exiting nuclear and coal capacity all play a role
- The spread has increased as at the same time both price levels have increased

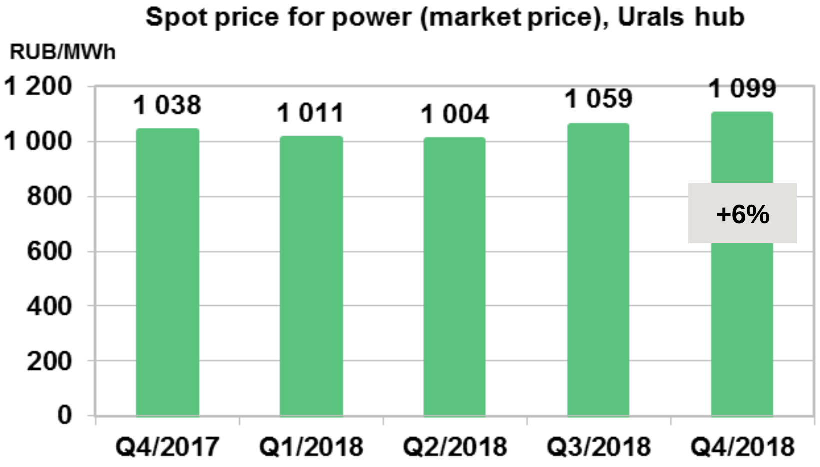


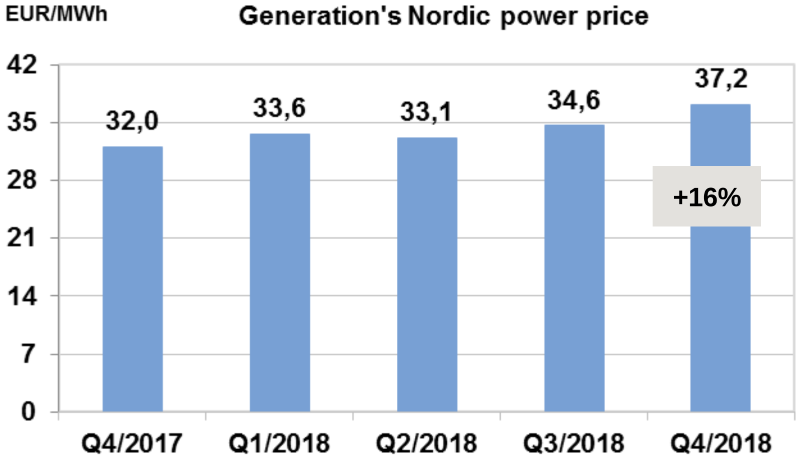


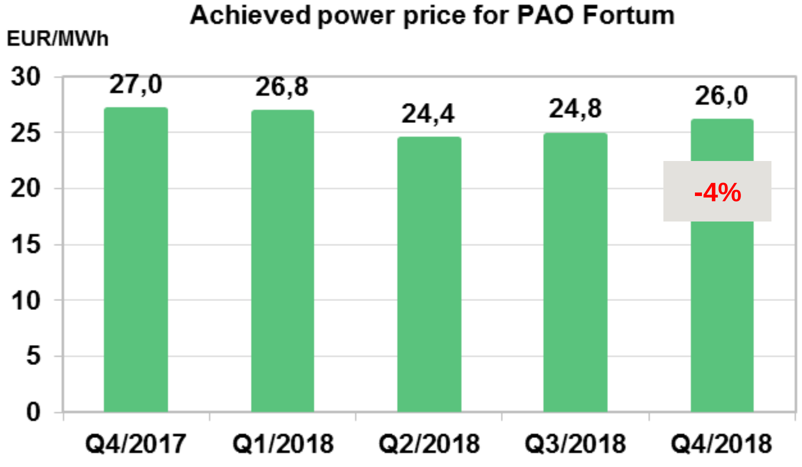
29 January 2019
Source: Nord Pool, Bloomberg

Nordic power prices on a rising trend in 2018 – Fortum price up 16% on Q4, price in Russia impacted by weaker rouble







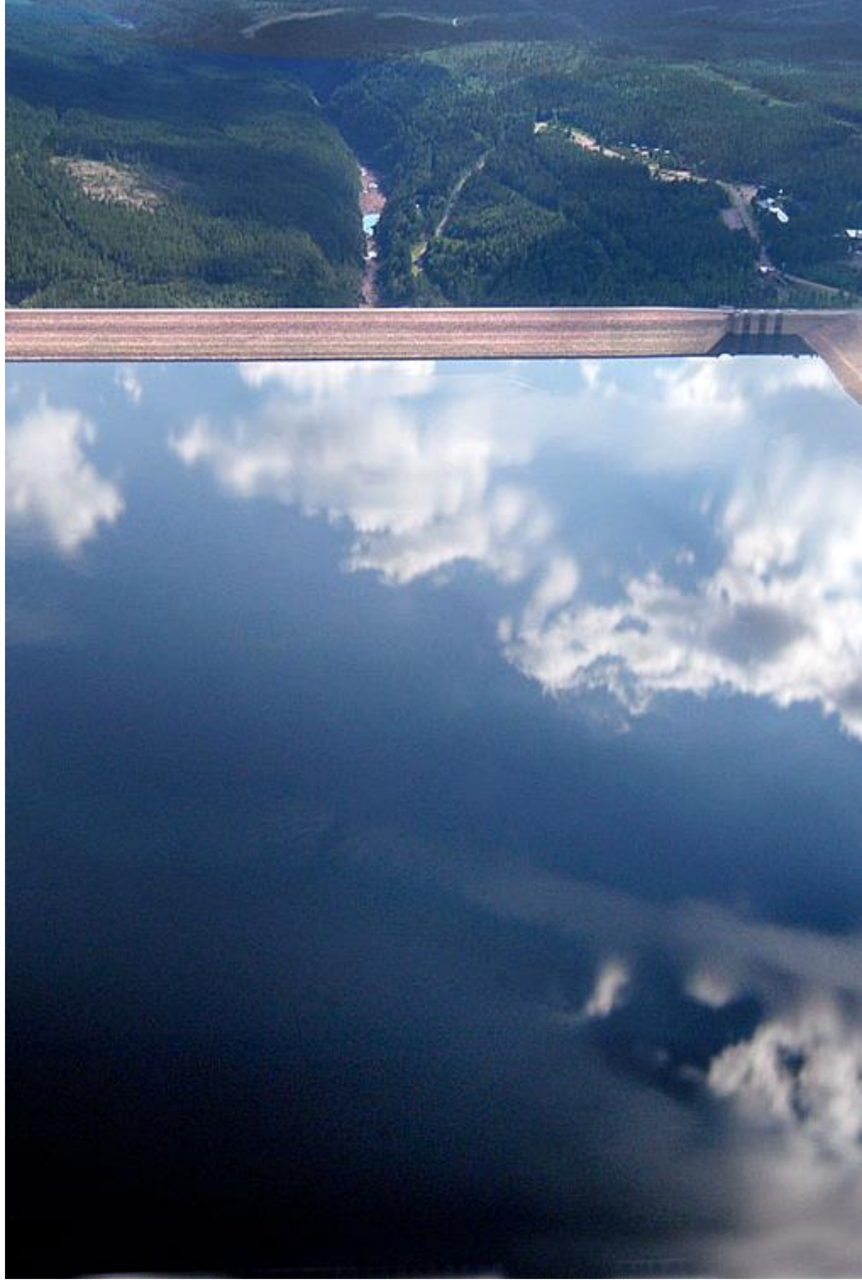


Changes refer to year-on-year difference (Q4 2018 versus Q4 2017)
NOTE: Achieved power price (includes capacity payments) in roubles increased by 7%

Generation

- Higher comparable operating profit in Q4, +18%
  - Higher nuclear, but lower hydro generation
  - Higher achieved power prices and lower taxes in Sweden
- Higher comparable operating profit in 2018, +32%
  - Higher achieved power prices and lower taxes in Sweden partly offset by lower hydro and nuclear volumes
- Loviisa automation project finalised; focus to maintain cost efficiency and benchmark performance, drive flexible clean energy

MEUR	Q4 2018	Q4 2017	2018	2017
Sales	555	433	1,837	1,677
Comparable EBITDA	224	191	762	603
Comparable operating profit	189	160	631	478
Comparable net assets			6,295	5,672
Comparable RONA %			11.2	8.4
Gross investments	71	55	194	264



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City Solutions

- Higher comparable operating profit in Q4, +11%
  - Higher power sales volumes and price, positive impact of change to seasonal heat pricing in Finland
  - Partly offset by the weaker result in recycling and waste business
- Improved comparable operating profit in 2018, +15%
  - Positive impact of EUR 37 (15) from Fortum Oslo Varme partly offset by the weaker result in the recycling and waste business
- Hafslund integration, development and expansion of recycling and waste business

MEUR	Q4 2018	Q4 2017	2018	2017
Sales	358	340	1,094	1,015
Comparable EBITDA	113	110	284	262
Comparable operating profit	68	61	113	98
Comparable net assets			3,743	3,728
Comparable RONA %			5.0	5.5
Gross investments	79	69	222	556

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Consumer Solutions

- Higher sales in Q4 driven by higher spot prices
  - Continued tough competition and customer churn in the Nordics
- Marginally lower comparable operating profit in Q4
- Increased comparable operating profit in 2018, +29%
  - Hafslund positive contribution of EUR 18 million
  - Profitability burdened by lower sales margins and the amended service agreements for the divested electricity distribution companies
- Hafslund restructuring, integration and development of product offerings

MEUR	Q4 2018	Q4 2017	2018	2017
Sales	555	453	1,759	1,097
Comparable EBITDA *)	31	25	110	57
Comparable operating profit	17	18	53	41
Comparable net assets			648	638
Customer base, million			2.47	2.49
Gross investments	14	3	47	493

*) Positive IFRS 15 effect due to capitalisation of sales commissions: Q4-2018 EUR 9 million and 2018 EUR 32 million

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Russia

- Increased comparable operating profit in Q4, +6%
  - Positive impact from higher CSA payments (Nyagan 1&2), contribution from new production units and compensation for the relocation of heat pipeline in Tyumen
  - Offset by weaker rouble EUR -10 million and bad debt provisions
- Lower comparable operating profit in 2018, -8%
  - New units and higher CSA payments offset by negative impact from weakened rouble EUR -32 million, bad-debt provisions and lower electricity margins
- Growth in solar and wind

MEUR	Q4 2018	Q4 2017	2018	2017
Sales	305	314	1,069	1,101
Comparable EBITDA	127	121	417	438
Comparable operating profit	89	84	271	296
Comparable net assets			2,789	3,161
Comparable RONA %			10.3	10.1
Gross investments	66	167	117	277

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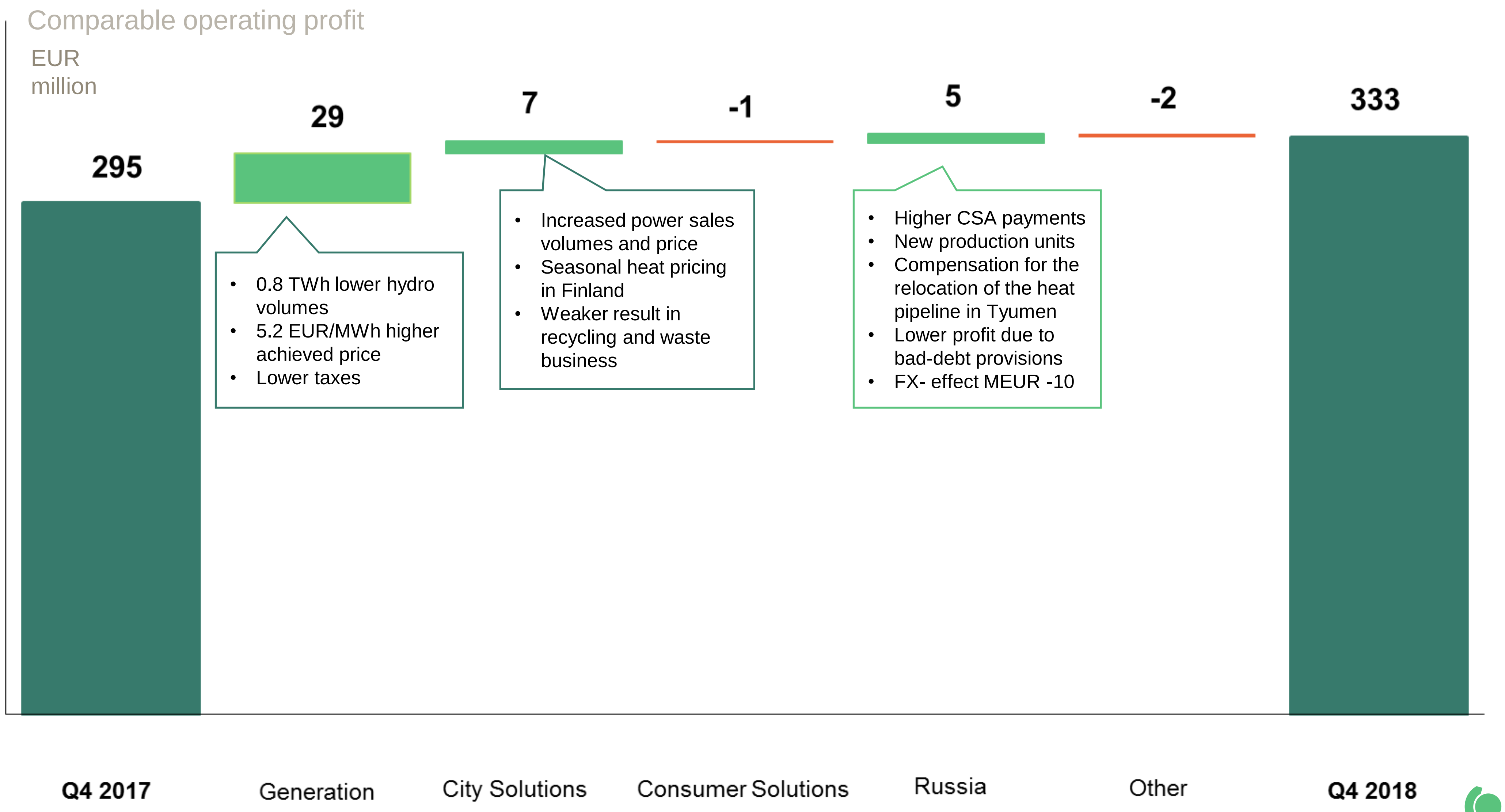
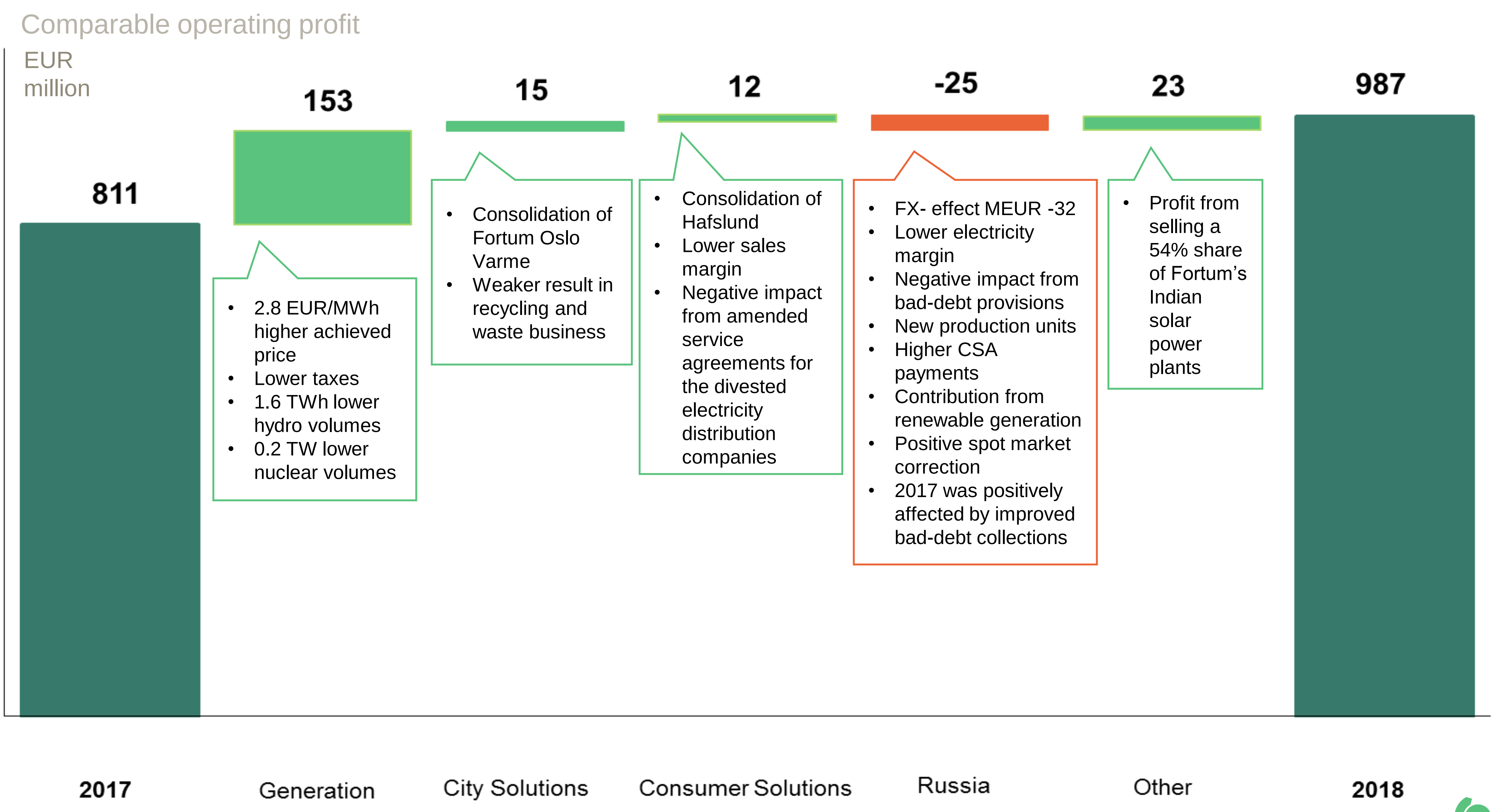
Q4 2018 – Higher achieved power price in Generation



Year 2018 – Clear improvement in the Generation segment



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Key financials

MEUR	Q4 2018	Q4 2017	2018	2017
Sales	1,599	1,432	5,242	4,520
Comparable EBITDA	473	424	1,523	1,275
Comparable operating profit	333	295	987	811
Operating profit	309	315	1,138	1,158
Share of profits of associates and joint ventures	-44	34	38	148
Profit before income taxes	261	300	1,040	1,111
Earnings per share, EUR	0.22	0.28	0.95	0.98
Net cash from operating activities	38	295	804	993

- Higher comparable operating profit due to higher power prices and acquisitions
- Share of profits from associates impacted by co-owned nuclear-related adjustments and divestments
- EPS for Q4 2018 negatively impacted by items affecting comparability and share of profits from associates (full year 2017 Swedish tax case -0.14 EUR)
- More cash tied to the daily cash settled futures reflecting higher power prices

Income statement

MEUR	Q4 2018	Q4 2017	2018	2017
Sales	1,599	1,432	5,242	4,520
Other income	41	29	130	55
Materials and services	-870	-747	-2,795	-2,301
Employee benefits	-119	-122	-459	-423
Depreciations and amortisation	-139	-128	-536	-464
Other expenses	-178	-168	-594	-576
Comparable operating profit	**333**	**295**	**987**	**811**
Items affecting comparability	-24	20	151	347
Operating profit	**309**	**315**	**1,138**	**1,158**
Share of profits/loss of associates and joint ventures	-44	34	38	148
Finance costs - net	-4	-49	-136	-195
Profit before income tax	**261**	**300**	**1,040**	**1,111**
Income tax expense	-64	-43	-181	-229
Profit for the period	**197**	**257**	**858**	**882**

- Sales and comparable operating profit increased due to higher power prices and Hafslund acquisition
- Share of profits from associates impacted by co-owned nuclear-related adjustments and divestments
- Finance costs positively impacted by nuclear-related adjustments and lower interest costs
- Income taxes for 2017 negatively impacted by Swedish tax case
- Net profit impact from nuclear-related adjustments was close to zero

Cash flow statement

MEUR	Q4 2018	Q4 2017	2018	2017
Comparable EBITDA	**473**	**424**	**1,523**	**1,275**
Realised FX gains/losses	26	-12	231	-83
Paid net financial costs, income taxes and other	-55	-72	-280	-281
Change in working capital	-406	-45	-670	81
of which change of settlements for futures	*-226*	*17*	*-524*	*141*
Net cash from operating activities	**38**	**295**	**804**	**993**
Capital expenditures	-185	-187	-579	-657
Acquisitions of shares	-175	-44	-4,088	-972
Divestments of shares	2	1	259	741
Change in cash collaterals and restricted cash	51	21	-36	-3
Other investing activities	15	14	46	85
Cash flow from investing activities	**-292**	**-195**	**-4,398**	**-807**
Cash flow before financing activities	**-254**	**99**	**-3,594**	**187**
Paid dividends			-977	-977

- Increased net cash from operating activities due to improved EBITDA
- Positive impact of EUR 314 million from realised FX compared to 2017
- More cash tied to the daily cash settled futures hedging power price
- Acquisition of shares, mainly Uniper
- Uniper PTO was financed with existing cash resources of EUR 1.95 billion and bridge loan financing of EUR 1.75 billion
- Dividends paid EUR 977 million

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

	2018	2017	TARGET
Comparable EBITDA, MEUR	1,523	1,275	
Interest-bearing net debt, MEUR	5,509	988	
Comparable net debt/EBITDA ratio	3.6x	0.8x	Around 2.5x
Return on capital employed (ROCE), %	6.7	7.1*	At least 10%

*) Includes capital gains of Hafslund transactions

Higher debt and lower cash due to payment of the Uniper investment in Q2 2018

Liquid funds EUR 0.6 billion

Committed credit lines of EUR 1.8 billion

Deleveraging towards the target:

1. Prioritising capital expenditure
2. Improving business performance through operational excellence and increased flexibility
3. Optimising business portfolio

Outlook

Demand growth

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

Hedging

For 2019: ~75% hedged at EUR 31 per MWh (Q3: 65% at EUR 30)

For 2020: ~45% hedged at EUR 29 per MWh (Q3: 35% at EUR 28)

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)

Annual General Meeting 2019 and dividend distribution proposal

- Fortum's Annual General Meeting 2019 will take place on 26 March 2019 at 11:00 am EET
  - At the Finlandia Hall in Helsinki
- The Board of Directors proposes a dividend of EUR 1.10 per share, unchanged
- Dividend-related dates planned for 2019:

– Ex-dividend	27 March 2019
– Record date for dividend payment	28 March 2019
– Dividend payment date	4 April 2019

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Q&A

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