



Fortum Half-year Financial Report 2022: Second quarter dominated by Russian gas curtailments – European energy crisis deepens

FORTUM CORPORATION JANUARY–JUNE 2022 HALF-YEAR FINANCIAL REPORT 25
AUGUST 2022 AT 9:00 EEST

This release is a summary of Fortum's January–June 2022 Half-year Financial Report. The complete report is attached to this release as a PDF file. It is also available on the company's website at www.fortum.com/investors.

April–June 2022

- Comparable EBITDA was EUR 920 (348) million
- Comparable operating profit was EUR 574 (35) million
- Operating profit was EUR -9,141 (-840) million, mainly impacted by changes in fair values of non-hedge-accounted derivatives and provisions for long-term gas contracts negatively impacted by Russian gas curtailments in the Uniper segment
- Comparable earnings per share were EUR 0.99 (0.09)
- Earnings per share were EUR -6.40 (-0.53)
- Cash flow from operating activities totalled EUR 275 (289) million
- On 19 May, Fortum closed the sale of its 50% ownership in Fortum Oslo Varme AS for approximately EUR 1 billion. The agreement was signed on 22 March 2022.
- On 22 July, Fortum, Fortum's subsidiary Uniper and the German Government agreed on a comprehensive stabilisation package to provide financial relief to Uniper.

January–June 2022

- Comparable EBITDA was EUR 816 (1,827) million due to the negative Uniper result
- Comparable operating profit was EUR 136 (1,206) million due to the negative Uniper result
- Operating profit was EUR -11,557 (505) million, mainly impacted by changes in fair values of non-hedge-accounted derivatives and provisions for long-term gas contracts negatively impacted by Russian gas curtailments in the Uniper segment
- Comparable earnings per share were EUR 0.88 (1.03)
- Earnings per share were EUR -8.90 (0.70)
- Impairments of approximately EUR 2.3 billion recorded pre-tax related to the Group's Russian operations including Nord Stream 2
- Cash flow from operating activities totalled EUR -1,254 (1,120) million due to negative change in working capital in the Uniper segment

Summary of outlook

- The Generation segment's Nordic generation hedges: approximately 80% at EUR 38 per MWh for the remainder of 2022, and approximately 60% at EUR 37 per MWh for 2023
- The Uniper segment's Nordic generation hedges: approximately 70% at EUR 26 per MWh for the remainder of 2022, approximately 55% at EUR 30 per MWh for 2023 and approximately 25% at EUR 30 per MWh for 2024*

- CANCELLATION of capital expenditure guidance: Fortum removes its guidance on capital expenditure for 2022 for the time being and will come back with an update in due course
- Uniper's anticipated losses from the gas curtailments will be recorded in Fortum's comparable operating profit, mainly affecting the third-quarter result

*As of the first quarter of 2022, Uniper has changed the reporting on its hedges. See Uniper's quarterly statement Q1 2022 materials for further details.

EUR million	II/2022	II/2021	II/2022	II/2021	2021	LTM
Reported						
Sales	38,237	17,128	81,860	38,621	112,400	155,639
Operating profit	-9,141	-840	-11,557	505	-588	-12,650
Share of profit/loss of associates and joint ventures	-49	61	-239	140	192	-188
Net profit	-7,356	-659	-10,189	651	-114	-10,953
Net profit (after non-controlling interests)	-5,686	-473	-7,908	618	739	-7,788
Earnings per share, EUR	-6.40	-0.53	-8.90	0.70	0.83	-8.77
Net cash from operating activities	275	289	-1,254	1,120	4,970	2,596
EUR million	II/2022	II/2021	II/2022	II/2021	2021	LTM
Comparable						
EBITDA	920	348	816	1,827	3,817	2,807
Operating profit	574	35	136	1,206	2,536	1,466
Share of profit/loss of associates and joint ventures	25	52	51	119	154	86
Net profit (after non-controlling interests)	885	79	786	915	1,778	1,649
Earnings per share, EUR	0.99	0.09	0.88	1.03	2.00	1.85
				30 Jun 2022	31 Dec 2021	LTM
EUR million						
Financial net debt (at period-end)				2,353	789	
Adjusted net debt (at period-end)				4,188	3,227	
Financial net debt/comparable EBITDA					0.2	0.8

Fortum's President and CEO Markus Rauramo:

"During the second quarter of 2022, Russia escalated its brutal war against Ukraine and launched an outright energy war against the EU. Due to Russia's gas curtailments, fears for security of supply and affordability of energy on the continent increased substantially. As a result, European gas and power prices rose dramatically and reached record-high levels in volatile markets.

The supply shortfalls of Russian gas and surging gas prices caused dire financial difficulties for our subsidiary Uniper, Germany's largest importer of natural gas. To fulfil its contractual obligations, Uniper has to source replacement volumes of the curtailed Russian gas in the market at significantly higher prices compared to its delivery contracts and has not been allowed to pass the additional cost on to the customers. Swift actions were required during the summer as Uniper's losses were accelerating and amounted to double digit millions per day, which resulted in immediate, substantial liquidity needs. These losses are now reflected in our result on a multi-billion scale, partly as materialised losses and partly as impairments and provisions that will materialise as losses in coming quarters.

On 22 July, after in-depth and constructive negotiations, we were able to announce the stabilisation package agreed between Fortum, Uniper and the German Government – with the support of the Finnish Government – to provide financial relief to Uniper. According to the agreement, the German state is providing EUR 15 billion of equity and liquidity for the

stabilisation of Uniper. As a result of the capital measures, the German state will take a 30% stake in Uniper and Fortum's ownership will consequently be diluted from 80% to 56%. Fortum will, however, remain the largest shareholder of Uniper.

Let me emphasise that for us at Fortum, three things were – and remain – crucially important in agreeing on the stabilisation package for Uniper: First, to stabilise Uniper. This has been achieved by the German Government taking a stake plus providing additional substantial liquidity. Second, to avoid further capital injections from Fortum – or the Finnish taxpayers – beyond the EUR 8 billion in loans and parent company guarantees to Uniper that were announced in January. In consideration of its liquidity support, Fortum now has the option to convert its existing EUR 4 billion shareholder loan to a hybrid instrument before its maturity. And third, to find a long-term sustainable structural solution for Uniper's gas business, together with the German Government. This is also part of the agreement and is a major step in ensuring that Uniper, and consequently also the Fortum Group, will return to a stable footing.

For the upcoming weeks and months, our focus is on agreeing with the German Government on how to finalise and execute the details of this stabilisation package, and to obtain all required regulatory approvals, including from the European Commission.

The announcement of Uniper's stabilisation package was also positively noted by the rating agencies. S&P Global Ratings removed the status of CreditWatch Negative and affirmed Fortum's and Uniper's long-term credit ratings of BBB and BBB-, respectively, with negative outlook. Due to the strong governmental support, S&P now considers Uniper a "government-related entity" which enabled Uniper to retain its investment-grade rating, despite an overall weaker stand-alone credit quality. The negative outlook reflects prevailing uncertainty surrounding gas flows and the fact that details of the stabilisation package are still to be defined and approved. In addition, Fitch also affirmed Fortum's long-term rating of BBB with negative outlook.

It's important to note that the current situation in the European commodity markets does not only reflect the developments of a single past quarter, but is the result of events that began already last summer. At that time, Europe was coming out of Covid restrictions, economies were recovering fast and commodity prices started to rise quickly. At the turn of the year, the high prices and increasing margin requirements caused liquidity constraints for Uniper. During the summer, the Russian gas curtailments have been the root cause for the record-high prices and supply concerns.

Similar effects are reflected in the Nordic market as well. Geopolitical tensions and its impacts on the European energy market have significantly raised the spot and forward prices for power in the Nordics, leading to increased collateral requirements and liquidity needs for utility companies. One can even argue that exchange traded futures markets are currently dysfunctional – they are driven by price and an unfit regulatory framework for these extraordinary circumstances - making the situation challenging for power producers and consumers alike. As a utility company we are currently managing the situation, but if the prices continue to rise, there will be a point where we have to increase our liquidity reserves. Therefore, I urge our Nordic governments to ensure that the regulation does not create undue burdens for companies providing energy to the markets and that financing is available for market participants to cover high margining and collateral needs in the short term and in the longer term to push for changes in the EU EMIR-regulation which set the legal framework for margining requirements. This is important because well-functioning futures market is a source for stability and predictability that both energy producers and users need.

In the second quarter, our comparable operating profit was EUR 574 million, which shows that the underlying power business is healthy. However, the Group recorded a net loss of EUR 7.4 billion as it was heavily affected by items affecting comparability deriving from fair value changes of derivatives in Uniper's gas and power businesses and provisions on the Russian gas curtailment losses from mid-June onwards. The situation is not expected to ease until the beginning of October when the German Government will implement a levy on all gas customers to cover 90% of the replacement costs for gas procurement.

On a Fortum stand-alone basis, the quarter's highlight was once again the Generation segment's good performance. It was mainly driven by higher achieved power prices following record-high physical optimisation results and higher spot prices. City Solutions' result was burdened by higher fuel and CO₂ emission allowance prices, changes in fuel mix as well as structural changes. Consumer Solutions' earnings were supported by improved electricity and gas sales margins. The Russia segment's result was impacted by a stronger rouble and higher prices and volumes, partly offset by the expiry of CSA payments.

As we announced in May, we are still pursuing a controlled exit from the Russian market with a potential divestment of the operations as the preferred path. We are currently assessing the possible implications of the new decree in Russia. As we have noted earlier, these processes may take time to conclude, and in the energy sector this has typically meant an approval from the Government Commission in Russia.

In summary: As a European energy provider, we are faced with a completely new reality compared to only six months ago. The high uncertainty in our operating environment is expected to continue. From our pan-European vantage point, the energy crisis with supply constraints and high prices in Europe is deep – and will most likely intensify towards the winter. This crisis has created unprecedented short-term challenges, as we have experienced with Uniper. It also has far-reaching implications for the longer-term energy system and energy transition. It has brought a new urgency to energy-supply diversification and has shone a harsh spotlight on affordability. In addition to making a turnaround of Uniper and improving the competitiveness of Fortum, we will look at our strategy to take all the new realities into account. We will find a solution that ensures we can fulfil this role – for the energy transition and for long-term security of supply in Europe.”

Espoo, 24 August 2022

Fortum Corporation
Board of Directors

Webcast/teleconference

A combined live webcast/teleconference for media, investors, and analysts will be arranged online on 25 August at 11:00 EEST. For the webcast, use the link on www.fortum.com/investors.

To ask questions please, join the teleconference by registering on the following link: <https://palvelu.flik.fi/teleconference/?id=1008577>.

After the registration you will be provided with phone numbers and a conference ID to access the conference. To ask a question, please press *5 on your telephone keypad to enter the queue.

A recording of the webcast as well as the transcript will be published on www.fortum.com/investors after the event.

Financial calendar in 2022

- Fortum will publish its January–September Interim Report on 10 November 2022 at approximately 9.00 EET
- Uniper will publish its January–September results on 3 November 2022

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Fortum

Fortum and Uniper form a European energy group committed to enabling a successful transition to carbon neutrality for everyone. Our 50 gigawatts of power generating capacity, substantial gas import and storage operations, and our global energy trading business enable us to provide Europe and other regions with a reliable supply of low-carbon energy. We are already Europe's third largest producer of CO₂-free electricity, and our growth businesses focus on clean power, low-carbon energy, and the infrastructure for tomorrow's hydrogen economy. In addition, we design solutions that help companies and cities reduce their environmental footprint. Our 20,000 professionals and operations in 40 countries give us the skills, resources, and reach to empower the energy evolution toward a cleaner world.
fortum.com; uniper.energy