

Fortum updates its strategy – financial targets and dividend policy reconfirmed

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- Fortum updates its strategy and reconfirms the dividend policy and long-term financial targets. The update is a continuation of the strategy execution towards Fortum's vision "*For a cleaner world*".
- The strategy aims at strengthening Fortum's competitiveness and ensuring a benchmark portfolio for the 2020's.
- Pursuing operational excellence and increased flexibility as well as ensuring value creation from investments and portfolio optimisation are the key priorities.
- Fortum will also drive focused growth in the power value chain and seek to build options for significant new businesses for the future.
- The strategic direction will be presented in more detail at Fortum's Capital Markets Day on 13 November.

Fortum has undergone a remarkable transformation in recent years, starting with the exit from the regulated power distribution business. This has enabled stronger focus on power and heat generation, through the strategic investment in Uniper, and growth in sustainable bio and waste-based combined heat and power generation. Furthermore, Fortum has created a solid base in solar and wind power, expanded in the consumer sector, and broadened into the recycling and waste business.

"Fortum has delivered on its strategy set out in 2016 and built a portfolio of businesses which has good profit potential for the coming years and is well positioned for the future energy markets. Now, our first priority is to further strengthen our operational excellence culture to secure that we are delivering on the investments that we have made," says Pekka Lundmark, Fortum's President and CEO. "At the same time the urgent need to respond to climate change will impact the whole society. Decarbonisation is needed in all sectors and clean electricity can be a significant enabler. Hence, we see the 2020's becoming the decade of electricity."

The actions society will take to limit climate change will offer new opportunities for those companies supporting consumers and industry to decarbonise and electrify, while at the same time, it challenges utilities' conventional business models longer-term. With the updated strategy, Fortum aims at seizing these opportunities.

Fortum's updated strategy

Fortum's vision "*For a cleaner world*" remains unchanged. The ongoing transition towards CO₂-free energy, driven by climate change concerns, politics and regulation, as well as technology development, brings significant opportunities for a company with competences in clean energy. At the same time, the future market environment is increasingly uncertain. As a response to this development, Fortum's updated strategy has four strategic priorities:

1. Pursue operational excellence and increased flexibility

Benchmark performance is essential for long-term competitiveness. For the next 2-3 years, Fortum prioritises profit creation from the current business portfolio. This will be achieved through operational excellence and increased flexibility. All sources of flexibility, both flexible generation assets and the demand response of large customers and consumers, will be needed to balance the high degree of volatile renewable generation.

Operational excellence and increased flexibility will contribute to improving Fortum's financial performance and cash flows to create additional financial headroom. In addition, Fortum will continue to prioritise and scrutinize capital expenditure. Through these measures, the target is to steer leverage from current net debt to EBITDA ratio towards the long-term target ratio of around 2.5 times. Having a solid investment grade rating is a key priority for Fortum.

2. Ensure value creation from investments and portfolio optimisation

Over the recent years Fortum has made several sizeable investments and aims to further improve its financial performance by ensuring value creation from them. The investment in Uniper, currently accounted for as an associated company, contributes to Fortum's financial performance both through Fortum's share of Uniper's result and its dividend. As Uniper's largest shareholder, Fortum's ambition is to increase value for both companies and their stakeholders.

In addition, Fortum continues to review its business portfolio in line with its strategic priorities emphasising CO₂-free assets, flexibility, and low operating cost to fit the changing business environment.

3. Drive focused growth in the power value chain

Fortum will build on its long-standing expertise to grow in CO₂-free power generation. When it comes to solar and wind investments, Fortum aims to grow by utilising partnerships and other forms of co-operation for a more asset-light structure. The business of the future utility will be increasingly relying on technology, digitalisation, software, and services. Consequently Fortum will continue to develop value-adding offerings and services for customers both in the consumer and industrial sectors.

4. Build options for significant new businesses

Foreseeing the development of the power markets and regulatory environment will be increasingly challenging towards the end of the 2020's. However, the uncertainty will create new business opportunities. Fortum aims to build on existing expertise and emerging technologies to create new businesses, independent of power prices, with potential for sizeable profit contribution. Circular economy meets these criteria, especially in the areas of waste and recycling as well as bio economy. Furthermore, Fortum will focus on investments in start-up ventures with disruptive potential.

Financial targets, dividend policy, and 2019 guidance for capital expenditure

Fortum's financial targets and dividend policy remain unchanged. The long-term over-the-cycle financial targets are:

- Return on capital employed (ROCE) at least 10%
- Comparable net debt to EBITDA ratio of around 2.5 times

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. And as stated in February 2018 the goal is to avoid a temporary dividend cut.

The estimated annual capital expenditure for 2019 is approximately EUR 600-650 million, including maintenance and excluding acquisitions. This includes solar and wind investments, which can be divested through the capital recycling business model. In 2020, capital expenditure is expected to decline. As previously communicated, capital expenditure (including maintenance and excluding acquisitions) for 2018 is expected to be EUR 600-700 million.

Reorganisation of the solar and wind business

Fortum has substantially grown its presence in solar and wind based power generation. Fortum now has a gigawatt-scale portfolio of solar and wind parks and projects in the Nordics, India, and Russia.

The solar and wind businesses have grown beyond the initial development phase and are now being reorganised. The wind operations will become a business area within the Generation division and the solar operations within the City Solutions division. The Russian wind and solar operations will continue as a part of the Russia division. The segment reporting will be changed as of 2019 and 2018 figures will be restated accordingly.

Capital Markets Day 2018

On 13 November, Fortum will host its Capital Markets Day for institutional investors and analysts in Espoo, Finland, where Fortum's management will present the updated strategy in more detail. The presentations will be webcasted (the agenda and the link to the webcast can be found at www.fortum.com/cmd).

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Fortum

Fortum is a leading clean-energy company that provides its customers with electricity, heating and cooling as well as smart solutions to improve resource efficiency. We want to engage our customers and society to join the change for a cleaner world. We employ some 9,000 professionals in the Nordic and Baltic countries, Russia, Poland and India. In 2017, our sales were EUR 4.5 billion and 61% of our electricity generation was CO₂ free. Fortum's share is listed on Nasdaq Helsinki. www.fortum.com