

**Transcription**

# **Fortum Half-year Financial Report 2021**

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17 August 2021

## PRESENTATION

### Ingela Ulfves

Good morning everyone and welcome to Fortum's webcast and news conference on our second quarter 2021 results. My name is Ingela Ulfves and I'm the Head of IR at Fortum. This event is being recorded and a replay will be provided on our website later today.

With me here in the studio is our CEO, Markus Rauramo, and for the time also today our CFO, Bernhard Günther, who then together will present Fortum's second quarter and first half year figures and the Group's performance. After the presentation, we will open up for questions in the Q&A session over the teleconference.

So, with this, I will now hand over to Markus to start.

### Markus Rauramo

Thank you very much, Ingela, and good morning also on my behalf and welcome to our half year 2021 results call.

I will first go through briefly the market environment, the highlights from the first half of the year, and our overall performance. I will start on our strategy and then hand over to Bernhard to walk you through the numbers in more detail.

I start with setting the frame: the macroeconomic outlook is improving with the IMF forecasting 6% growth in 2021 versus a 3.3% contraction in 2020. Fortum managed the year 2020 reasonably well, despite the general COVID-19 impact; improvement from last year is thus not as steep as with some other market players. This stable underlying performance has continued. Power demand normalised in Europe. Nordic demand did not drop in 2020 due to COVID. Commodity prices have increased lately; coal, gas, and CO2.

On the regulatory side, I'm very happy that the European Union is showing leadership with its ambitious Fit for 55 package, which will set the EU to the right path to reach climate neutrality by mid-century. The package outlines the tools to reach the 55% emission reduction target by 2030 and climate neutrality by 2050. Overall, we welcome the package. What is very positive is the strong focus carbon pricing and the extended role for the EU ETS.

Where we have main concerns is that the package is not technology neutral, but takes strong bias towards certain technologies like new RES. The positive development has also reflected on the EU ETS price that has continued to set new records in 2021.

Now, I want to guide your attention on the key pillars of our strategy. We want to deliver sustainable financial performance and drive the clean energy transition. The determined execution of our transformation strategy continued during the spring and summer. We have taken substantial steps in active portfolio rotation and have further accelerated our decarbonisation efforts.

This has also been supported by solid operational performance across all segments. We deliver on our plans. First half year results have been remarkably solid. All segments are up compared to previous year. Just last week, Uniper reiterated their full year guidance, which they have increased already in Q1 following an outstanding first quarter. One should not be

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irritated by weaker summer quarters as this is the nature of their business and the just described increase in commodity prices might even more pronounced the well-known seasonality.

Second, we delivered on our strategy by continuing to optimise and rotate our portfolio. Our announced divestments now add up to 5.2 billion over the last 18 months. The efficient implementation of our chosen strategy has strengthened Fortum's balance sheet. The closing of all disclosed divestments will further lower our leverage this year, measured as financial net debt to comparable EBITDA, well below our target of below 2x.

Thirdly, the execution of our decarbonisation strategy is also proceeding well. We set to end the use of coal in our Russia division by the end of 2022. In our Uniper segment we disclosed the decision to accelerate our coal exit in the UK by closing the first block of the Ratcliffe coal fired power plant as early as September 2022 and the remaining three units by the end of 2024 – all ahead of schedule. And we have been successful in the collected auction in Germany and I will return to this in a moment.

All of those mentioned efforts – strong performance, divestments, and decarbonisation efforts – have not gone unnoticed as both rating agencies, Standard & Poor's and Fitch, have now removed the negative outlook for Fortum. And we are very pleased that they revised their long-term ratings to BBB flat with a stable outlook.

Then over to the headline KPIs. At first glance, a fairly strong first half, but a weak second quarter. But before judging on our performance, let me highlight a series of relevant topics.

First, there are some consolidation effects at play that must be considered. Uniper has been fully consolidated starting from Q2 last year and has been included as an associated company before. Comparable earnings per share for the first half 2020 also included the Q4 2019 Uniper associated results.

Second, in 2020 we had good performance, despite COVID-19, which was not the case for all of our peers. Taking all this into account, the like for like comparison of the first half comparable EPS 2021 gives the clearest picture showing an increase from €0.91 per share, excluding the €0.18 from Q4 2019, to €1.03 per share. This is an increase of 13% for the first half.

With regards to the leverage target, our financial net debt to comparable EBITDA of below two, we currently stand at 2.4 taking the earnings of the last 12 months into account. But the 2.4 does not include our latest announced disposals and therefore this indicator will be materially better in the course of the second half of this year.

Now, over to the second quarter. Q2 profit was operationally solid across the segments. Those of you who have followed the Uniper call last week know that there are phasing effects at work causing comparable operating profit and the comparable EPS to decline on quarterly levels. The decline in operating cash flow in the second quarter is due to income tax paid and the changes in working capital.

Before we come to the next slide, one word on the Q2 reported EPS, even though that is not shown on this slide but worth mentioning. The reported EPS was distorted by changes in fair value of negative 852 million, mainly because Uniper is not applying hedge accounting.

And now over to the segment overview. The overview of the comparable operating profit on a divisional level shows in essence again three things. All segments have been contributing positively year on year. Uniper is the main driver for the

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increase based on the highlighted full consolidation in 2021. And Generation and City Solutions show a strong uplift. The same applies to Consumer Solutions.

What the picture does not show is that the Russia division showed a stronger underlying performance with higher prices and volumes. But the weakness of the rouble covers the improved performance picture that we are nearly flat year on year in euro terms. To sum it up, I'm satisfied with the performance across the Group.

If we look at the isolated quarter, the overview of the comparable operating profit on a divisional level shows clearly that the year on year deviation is determined by the Uniper segment. The main effect in the isolated quarter comes from the global commodities business international portfolio that was significantly below previous year. In the isolated Q2 2020, a significant positive hedging result settled that we did not see in the isolated Q2 this year.

Generation and City Solutions show a strong uplift based on good operational performance and market fundamentals. Russia and Consumer Solutions were flat despite stronger underlying performance. Bernhard will give further details in his section.

Before I hand over to Bernhard, let me give you a brief overview where we are with our strategy execution on the next slide. Our priorities have been and are to strengthen the balance sheet, to decarbonise our portfolio, and to drive profitable growth without compromising on Fortum's dividend and financial strength.

Fortum has been a front runner in creating clean energy generation for decades but has not been shy to invest in older, less efficient fossil based systems but also multiples. We invested in these platforms, converted them, cleaned them up, created state of the art clean systems with the best available technology, and we are taking the next steps in building up renewables.

We are following the same logic even today. After finalising such a conversion successfully, we have to ask ourselves if we can further enhance the value of these assets, or if at this stage other investors are more appropriate, and should we redeploy our capital? Over the past 1.5 years we have determinedly executed a strategic transformation and sold many district heating assets and businesses worth approximately €5.2 billion.

Most recently, we announced the divestment of our 50% ownership in Stockholm Exergi, the sale of solar power assets in India, and closed the sale of Baltic District Heating. With these successful divestments, we have yet again demonstrated that we are constantly creating value for our shareholders and that we deliver on our strategy and our priority of maintaining a financially strong Group.

When it comes to decarbonisation, we accelerated our ambitious coal exit plan with targets to be decarbonised as the whole Group by 2050 in line with the Paris Agreement. In Europe we are advancing fast. In our Uniper business in Germany, we were successful also in the third round of auctions for the closure of our coal fired power plant. The bid for the closure of Scholven C power plant was accepted, which makes it the third success in three auctions held so far. And Uniper's third coal fired power plant to be close ahead of our previously announced already ambitious schedule. Uniper contributes one fourth of all capacity selected in Germany and more than from any other company.

And as I mentioned already, we have been able to accelerate our decarbonisation in the UK as well. This means that we have been able to announce the accelerated closure of almost 40% of our coal fired generation capacity in Europe within less than one year. This acceleration translates into a carbon emission reduction of up to 6 million tonnes.

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But we also recognise that the Russian activities need to be decarbonised over time. We announced in July a clear path to cease the use of coal in our Fortum Russia segment by the end of 2022, with an annual CO2 emissions reduction of approximately 2 million tonnes. We agreed to divest our Argayash coal fired combined heat and power plant and as we announced earlier this year, we switched the fuel of the Chelyabinsk CHP-2 unit from coal to gas. This leaves the Group's Russian operations with only one coal fired power plant without a clearly communicated exit path. The Berezovskaya Three power plant of the Uniper segment.

So, what can you expect from us going forward? We are looking for balanced growth that is the triangle based on earnings power, with stable and an overtime increasing dividend, and a stable BBB flat rating that is necessary in our capital-intensive industry with access to low-cost debt. All those elements should mutually support each other and not have one corner dominate.

After the successful strengthening of the balance sheet, the question is where to best deploy our capital. This will be growth in clean energy and gas, as highlighted in our December Capital Markets Day.

And with this, I would now like to hand over to Bernhard with the financial section. Bernhard, welcome.

## Bernhard Günther

Yeah, thank you, Markus, and a warm welcome also from my side. Good to be here finally in person.

Starting with a key financial overview summarising our key comparables. What you see here is first, in the middle columns you see a comparison of our half year figures. These show a strong improvement across the KPIs, mainly due to the contribution of Uniper to the income statement which happened in Q2 2020.

Second, there's the comparison of the full year 2020 versus the last 12 months on the right-hand side. And this should give you a better grip on where we are on our journey. As Uniper has been an associate before the consolidation in Q2 2020, the full year 2020 column includes five quarters of Uniper for all but the top three KPIs.

Consequently, the LTM column on the right is probably the most telling indicator for the Fortum Group in its new form. From there, one can see the current level of comparable EBITDA of €3.2 billion. This is broadly in line with what I showed you a quarter ago. And the same applies to the comparable EPS being at €1.61, driven by improved market conditions.

Our financial position has improved following the series of divestments that Markus mentioned before. Standard & Poor's, as well as Fitch, corrected their outlook for the Fortum Group to stable, recognising the substantial delivery on our promises.

And on a side note maybe, which is not on the slide, our reported – i.e. unadjusted – operating profit for the period was impacted by minus €875 million and this items affecting comparability mainly due to changes of fair values of non-hedge accounted derivatives, especially in the Uniper segment.

And that's now good for going through the segments individually. First, on Generation. Let's look closer at the performance of our segment and with the biggest one of old Fortum, which is generation, we see a comparable operating profit in Q2 that increased by 13%. This improvement was supported by the high achieved power price which very successfully reflects our physical optimisation and the higher spot price. This average power price was at €38.1 per megawatt hour.

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We also see slightly higher hydro volumes which were beneficial. And in this quarter, there was a slight increase of our cost base, the main part of which was related to nuclear cost – both owned and co-owned – and part of this cost increase is just movement between quarters, while some of it is recurring; for example higher depreciation and some higher fuel costs. While the spot power price increased by a stunning 143% in Fortum's power generation areas, the fairly high hedge levels and a hedge price below the level of the spot price dampened this effect on our achieved price.

Now, on to the reservoirs and the prices in the Nordics. On reservoirs, you see that the spot price has been on a relatively good level and there has been water in the reservoirs, so hydro production has continued on a high level. At the same time, the realised precipitation has been below normal. This was impacting the inflows, obviously. All in all, this reflects in the fact that water reservoirs have dropped from 21 terawatt hours above the long-term average at the beginning of the year to nine terawatt hours below the long-term average in early August.

Then looking at Nordic power prices, when you look at the graph, it is important to distinguish the spot and front-end developments from the longer-term products in the outer years. Nordic spot prices – as well as coal, gas and carbon – saw a strong recovery during Q1 2021. This strong momentum has also continued throughout Q2.

The Nordic spot price has been supported by both commodities and continental European power prices, as well as Nordic fundamentals such as below normal precipitation and wind production. In addition, Nordic demand has increased by two to three terawatt hours compared to Q2 2020. The increase is only partly caused by cooler temperatures.

Average system spot price was €41.9 per megawatt hour during the quarter, which is a good price level compared to the €5.6 per megawatt hour we saw a year ago. And this is exactly why we hedge, which is illustrated on this slide. What you see here at the top are the achieved prices for Fortum's existing outright positions, but excluding the achieved prices for the 25-terawatt hours of our subsidiary Uniper. And they, as you know, published their numbers a week ago on the 11th of August.

Fortum's achieved prices in the generation segment are on the way up and compared to the volatility that we experienced over the last year, again on a very reasonable level. So I should compare the upper two quadrants left to right. Spot prices have been coming up substantially lately in the Nordic area. The hydro situation is now below average as we saw on the previous slide, so this is a bit more dry situation now.

With this, over to Russia. Here the achieved prices have also been on the way up in rouble terms, as the market has been increasing demand wise, but in euro terms we see a downward trend as the Russian rouble came down. In rouble terms, the Russia segment achieved power price increased by some 7%. And this now brings me to the Russian segment performance.

Q2 2021 showed power generation volumes increasing by 13% due to higher consumption following the economic recovery from the COVID pandemic and high temperatures in the second quarter of 2021. Comparable operating profit for Q2 was flat. This effect of the change in the Russian rouble exchange rate was at minus 2 million in the quarter and the slight negative effect of the CSAs following three units entering the step-up period, where they get higher CSA payments while there are two units who are now out of the CSA payments. And there was, as shown on the slide before, the positive effect from higher power prices.

For the first half year, the comparable operating profit improved marginally. In Q1, there was the positive effect from the solar transaction with RDIF and higher power prices, while there was a slight negative effect from the CSAs, as described for Q2, and the rouble effect was for H1 minus 23 million. So, in rouble terms there was a clear improvement.

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As Markus already mentioned, decarbonisation actions are also taken in Russia. First, we announced the transformation from coal to gas in our Chelyabinsk CHP-2 plant and secondly, we announced the divestment of our Argayash coal plant, which together means that we cease the use of coal in our Fortum Russia division by the end of 2022.

Coming now to City Solutions, where we are happy to see an improvement after they had a tough year in 2020 which was affected both by mild weather and low power prices, but also by COVID. For the first half of 2021, the comparable operating profit almost doubled – plus 91% – as last year was impacted by very weak market conditions. The result in H1 saw higher heat sale volumes in all heating areas and in Norway, it was also helped by higher power prices, which have an influence on heat prices. The decline in comparable net asset is naturally related to the district heating divestments we successfully concluded.

From a strategic perspective, there's obviously been a lot of activity this year in City Solutions. As the largest transaction we announced the divestment of our 50% share in Stockholm Exergi for €2.9 billion. The transaction is expected to close by the end of this year. Further, we announced the divestment of two of our solar plants in India with a total of 500 megawatts capacity for approximately €280 million. The closing of this transaction will happen in three tranches, with the last one expected in the first half of 2022. And in early July, we closed the divestment of our Baltic district heating business announced in March with a total consideration of €710 million. And as Markus already said, this obviously has a positive impact on our leverage.

Moving onto Consumer Solutions, who showed good results again. So, the EBITDA now improved for the 15th consecutive quarter in a row. If we're looking at the accumulated result performance, the competitiveness continued to strengthen with active development of the service offering, including digital services and products. And the strategic review of this business, as announced in December 2020, is ongoing.

Coming as last of the segments, but not least of the segments, to Uniper. They published their results last week and we can repeat some obvious general comments. Again, please note that Uniper has been included as associate in Q1 2020, giving some distortions when it comes to the first six-month comparisons. This holds true for the shown earnings, but also for the volumes for the first half.

As a general comment, I would like to highlight that the underlying performance was solid. When looking at Q2 21 in isolation, it's good to keep in mind that last year had an extraordinary positive effect from the trading businesses. This year, the Q2 IFRS result includes some negative CO2 related phasing effects that will be netted by the end of the year.

As this effect is only intra year, Uniper reiterated their full year guidance. Uniper's European generation business slightly improved from the previous year with better hydro and fossil business generation at Irsching 4 & 5, as well as Dutton 4 [ph 00:26:59] are now in operation.

The results of Uniper's Russian power generation business – Unipro – were slightly above the previous year's level with the commission of Berezovskaya 3 in May, offsetting the expiry of the CSAs for the [? 00:27:20] power plants and negative impact from the change in the Russian rouble exchange rate, which we discussed before.

Finally, just a brief note related to the Russian merger control filing. In March 2021, amendments to the Russian Strategic Investment Law were approved and based on the law, Fortum is now allowed to own 100% in Uniper. And Uniper, as you know, is the majority owner of Unipro. Following this, Fortum has considered for the time being not to pursue the FAS merger control filing and will continue to further analyse the requirements of the filing process. We will come back to this in due course.

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Now, over to financial debt. Here you find the changes in our financial net debt and main items of our cash flow during the first half of 2021, showing an increase of €645 million, mainly related to the dividend payments of almost €1 billion that were paid in Q2 2021. With regards to the leverage target of financial net debt to comparable EBITDA of below two, we currently stand at 2.4, taking the last 12 months into account, but this does not yet include our latest announced disposals and therefore will be materially lower in the course of the second half of 2021 and very much in our target range.

As said before, the credit rating agencies have revised the outlook on Fortum's long term issuer default rating from negative to stable, reflecting our solid market positioning and delivering on our asset disposals. The bond maturity profile is rather balanced. Our liquidity position is very solid with liquid funds of approximately €1.7 billion. We have currently €9.8 billion of gross debt and average interest rate for this whole loan portfolio is 1.5%. And please bear in mind that Uniper has also some interest income from their operations.

Now, finally coming to the outlook, our successful hedging has continued creating predictability and visibility, and you can also see here again the Uniper hedging numbers below the Fortum ones. Regarding CAPEX for 2021, we repeat what we have already communicated: Our total Group CAPEX is estimated to be €1.4 billion of which maintenance is expected to be around €700 million. And please bear in mind that there may always be a bit of volatility between the years as we have not provided guidance for normalised maintenance CAPEX going forward.

With this, I conclude our presentation, and we are now ready to start the Q&A session. Ingela, over to you.



## Q&A

### Ingela Ulfves

Thank you, Bernhard, and thank you Markus for both of your presentations. So, I propose we begin the Q&A session. Moderator, please go ahead and start.

### Operator

Thank you. If you would like to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel.

Our first question is from Deepa Venkateswaran from Bernstein. Please go ahead.

### Deepa Venkateswaran

Thank you, that's Deepa Venkateswaran from Bernstein. I have two questions. So, firstly on the balance sheet. I think both of you acknowledge that the balance sheet is really strong. So, in that context I was wondering why we need to sell this Customer Solutions division, particularly given that it's been exhibiting these very strong numbers quarter on quarter, particularly when the balance sheet is not strong, and therefore is the game plan to squeeze out the Uniper minority?

And my second question is just a clarification on the emission reduction from Uniper's early closure. Could you also quantify what might be the offsetting impact from the ramp-up of coal and also out of the six million how much might get eaten by my ramp up of coal in Uniper. Thank you.

### Markus Rauramo

Okay, I guess I'll start with the balance sheet question. Indeed, we have been actively rotating assets and releasing a lot of capital, and it's a good question that why are we looking at other strategic assessments. The rationale for starting the strategic assessment for Consumer Solutions was that we are focusing our growth and development activities now on the platforms which we can scale up on a European level and that means growth in CO2 free energy, renewables, solar and wind, increasingly clean gasses and infrastructure and industrial solutions. We indeed have a really strong consumer solutions platform and they have been doing a great job for 15 consecutive quarters of EBITDA improvement, but it's a Nordic focused business, so the European competition has customers, the bigger ones – 10, 20, even more million customers – and to get to the scale that would be completely other thing, so we have the bigger scaling of possibilities in other businesses.

Then the question on emission reductions. So, the numbers I was referring to, these are like for like numbers. Obviously new units coming online, they have an increasing impact on CO2 emissions and an even bigger swings come then depending on what units of our existing fleet are running. And this we can see that production in European generation increased substantially with the market conditions that we had in the first half of the year.

## Operator

And our next question is from Artem Beletski from SEB. Please go ahead.

## Artem Beletski

Yes. How this is Artem from SEB. Thank you for taking my questions. Actually, I have two to be asked. So first starting with generation and flagged higher cost base in Q2. I think Bernhard mentioned for example nuclear and depreciation topics. Could you maybe quantify what is the magnitude of basically increased cost base and if there are some temporary elements which shouldn't be continued or basically shouldn't be visible in coming quarters.

And the other question is related to Berezovskaya. You highlighted in the report it is the only coal fired power plants without communicated exit path. Should we expect some news on this front eventually, or how we should think about basically the Berezovskaya situation?

## Bernhard Günther

Yeah, hello, I'm happy to take the first question. I think Markus will take the second one on value 3. On generation and the higher cost base. As we said, the significant part is about movements between the quarter, so it's not a structural effect; it's just an effect you see on a quarter-by-quarter comparison, which obviously is always – the risk of – the time wise granularity of your comparison the more these phasing effects might play a role.

If you eliminate all these effects and the non-recurring elements, the overall cost effect that might be of a structural nature is in a very low double-digit million euro amount and there's also some non-cash in it. So, depreciation effects of course are non-cash, and this is also related to a harmonisation in our accounting policies after the full consolidation of Uniper.

## Markus Rauramo

And I can take the Berezovskaya question. So, one fundamental difference between, for example, EU and Russia is that the EU has had the emission trading system in place for a long time. Whereas Russia is committed to the Paris Agreement, they have not stipulated mechanisms how to phase out the carbon emitting activities. Now, we are of course committed to decarbonising our activities across the board, being Paris Agreement compliant fully in Scope 1, 2 and 3 by 2050. And what we heard now this summer is that Russia has really taken an active approach on decarbonisation. Also, I think vis-à-vis the European ambition and the risk of carbon border taxes coming in place.

So, Russia is talking about setting up its own emission trading systems and taxing carbon domestically. We'll see what happens. Early to say on that front, but I think our and Russia's actions and ambitions are aligned, but no stipulated timelines either on the Russian system or for the Berezovskaya asset.

## Artem Beletski

Okay, great. Thank you very much.

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### Operator

And our next question is from Vincent Ayrat from JP Morgan. Please go ahead.

### Vincent Ayrat

Yes, thank you. Good morning, everyone. So, I'm happy to see you've already gave some colour on the OPEX part of the equation. I'll go back to Uniper to start with. So, we still don't have any public policy on the UK dividend. Berezovskaya 3 remains the last coal fired asset without a path to decarbonisation. The balance sheet is [inaudible 00:38:15]. So, clearly, we have to come back on the Uniper control. You say that you have no detailed [inaudible 00:38:23] planned before the end of the year.

And the question then is could you go about it in a different way, like minority squeeze out before the end of the year? Is it something which is ruled out or if everything is ruled out until 1st of January, does it mean that everything is open on January 1st? So, that's question number one.

Second regarding the renewables. I keep looking at your WACC plus one investment threshold, which is especially low versus competition. When we think that most of your renewable developments are in Russia and India at this stage, so should we see that actually, you're looking at trending in mostly renewable developments in Europe at some stage? Because WACC plus one percent on the Russian [inaudible 00:39:12] does not really ring like a very value accretive proposition.

And finally, if you could give us a bit of colour on the decision regarding nuclear waste depositories, which is expected for the end of the month. That would be very useful. Thank you.

### Markus Rauramo

Okay, I think that at least I spotted actually several questions for our contemplations, but maybe I'll try to at least part of them group together. So indeed, the case is so that on the ownership side, we have not ruled out buying more shares in Uniper and you have seen in the past quarters an announcement how we have progressed on that front and the comment on no DPLT. That of course still remains valid. We have made good progress on the cooperation work between Fortum and Uniper and we announced the one team's activities and these have been progressing well.

Then on the net debt/EBITDA and cost of capital contemplation. Maybe I'll let also Bernhard comment on that, but this is indeed something we have been addressing the whole problemacy to the build operate transfer models, partly rotating capital with leverage, increasing the return spot, but one important element, at least from my point of view, has been also that this way we can scale up the activities in the field of renewables quickly. So, take the example of solar; we have scaled up from owning five megawatts up to developing and commissioning 500 megawatts. And we need to scale it up from that.

So the business model continues to develop all the time. If Bernhard wants to continue from that.

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### Bernhard Günther

Maybe just from a CFO perspective. Of course, we are always watching also what our competitors communicate in terms of the hurdle rates they apply, and I think it's also fair to say if you look at the success we have in our project development, plus the CAPEX rotation or capital rotation in India, and especially in Russia, so far I think this has been quite convincing, so we do feel comfortable with the hurdle rates we currently apply. But of course, we are constantly watching as well.

### Markus Rauramo

Then there was a question on the nuclear. I think you're referring to the final depository of spent nuclear fuels. We want to communicate clearly that it's high time actually for Sweden to decide on how to take care of the final depository of spent fuel so the nuclear operators cannot wait for long because the intermediate storages are full. So, we need clarity.

### Vincent Ayrat

Thank you very much. Just on the hurdle rate on renewable, just to be sure I understand. What you're saying is that the WACC plus one hurdle rate, which is lower than competition – you're clearly comfortable. It's a lower rate and you're comfortable with that. But did I understand properly that it does not include overall as a return the farm down element of your business model? Is it fair or did I understand wrong?

### Markus Rauramo

I think that's a fair description. It reflects the philosophy that we also want to differentiate between the low emitting and higher emitting investments we have. So, differences in hurdle rates. And then we have indeed deployed different models on the balance sheet, building in joint ventures, build, operate, transfer. So, ultimately, what model we are using will then define what kind of outcomes and returns on result impacts we get.

### Bernhard Günther

And if I might also add, I have not recently checked all our competitors, but some of them with what they published. I mean at least, as far as I can remember, all or most of them at least start with the bandwidth of WACC plus one plus something-percent, so some of them have the bandwidth, and what of course we would also still include as a country risk element or other project specific risk element on top of the pure corporate finance pack that you would derive. So, the 1% is not meant to cover those, obviously.

### Vincent Ayrat

Excellent, thank you.

### Operator

And our next question is from Lueder Schumacher from Société Générale. Please go ahead.

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### Lueder Schumacher

Good morning, Lueder here. Two questions and one request, if I may. The first one is on Nordic power prices. We now have spot prices that average more than €55 a megawatt hour. But the forward curve for the calendar contracts is still only at €39 per megawatt hour for 22 and even €32 a megawatt hour for 23. How do you explain this disconnect? Is the tightness in the system really just due to low hydro levels we are seeing at the moment and therefore just constrained to this year? Or could this actually slip further out into the calendar contracts, bearing in mind the development in coal generation costs, where Nordic power prices are trading at a record discount through the costs of coal generation, bearing in mind what's happening with coal prices and CO2 prices.

The second one is quite straight forward. On page 55 of your H1 report, you show gross investments in shares in subsidiary companies of €154 million. Does this by any chance include more shares in Uniper?

And lastly, the request. As we are moving from the increasingly volatile reported to the comparable accounting world, can you maybe provide us with quarterly comparable numbers for 2020, i.e. the remaining quarters in terms of historical figures along the lines you do on page 51 in your report?

### Markus Rauramo

Okay, I can start with the Nordic power price. So, I would position it so that the spot prices are reflecting exactly the conditions in the market as we speak today at this hour. So, that is reflecting the coal, gas, CO2, transmission capacities and demand supply balances in the various areas, so I would describe it so that we have a tight market, hydro reservoirs starting to be lower than average. Not a lot of marginal availability in the system and when we have, for example, low winds in the Nordics, you can see that in the prices.

Then how I interpret at least the forward curve is that that reflects the same, but on a theoretical level when you come to the coming quarters and coming years. So, that is the market's best understanding of what these mentioned conditions will be in next quarter or next year. So, all these factors together.

Then what I read from the commodity markets overall is that stronger gas, stronger coal, stronger CO2, and an electrification of the society. These are all good things for us. So, we have seen both the spot being higher and forward curves increasing, albeit clearly with the high spread between Nordics and Germany in the future periods.

Then with regards to the Uniper shares in previous quarters we have been, and you have seen it in the reported numbers, that we have been buying and increasing our ownership in Uniper. We have ruled out until the end of this year the [? 00:48:25] or squeeze out, but we have not ruled out buying more shares in Uniper.

Then the last question. Maybe Bernhard got it, but I wasn't sure actually, I didn't quite get the question. Maybe you did, Bernhard.

### Bernhard Günther

Yeah and Ingela has already assisted a bit because I wasn't sure either because obviously you're referring to numbers we have not published so far on comparable operating profit in 2020, or at least I would suggest, Lueder, that I will come back

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to you to clarify what exactly it is you're looking for and then to help you if there's any kind of reconciliation that you would need on the result. Is it fair?

### Lueder Schumacher

Okay, yeah, Rauno already knows, it's just the new concept of going down to the comparable net income, sticking strictly to the comparable world instead of the reported one, as you've done before. So, if that is what we have to focus on in the future, it would be good to have the historical numbers.

### Bernhard Günther

Yeah, okay then it's understood because I think the comparable operating profit already was there before, but the new elements has of course come to the comparable net income and we can try to help out there.

### Lueder Schumacher

Excellent, thank you.

### Operator

And our next question is from Peter Bisztyga from Bank of America Securities. Please go ahead.

### Peter Bisztyga

Yeah, good morning. It's Peter Bisztyga here. Two from me. First of all, you mentioned that this amendment to the Russian Strategic Investment Law had been approved and now you're technically allowed to own 100% of Uniper, but then Bernhard after that you said something else relating to some merger control application or something that you had withdrawn. Can you just repeat that because I missed it and maybe sort of clarify exactly what you meant?

And then the second thing just relates to this Swedish nuclear waste decision. Your report mentions a sort of potential €80 million per annum cost relating to the delayed decision, but it's a little bit unclear whether that relates just to Oskarshamn or the whole nuclear industry, and it's a bit unclear whether that's kicking in now or in 2024. So, I was just wondering if you could provide some detail on exactly what that €80 million number means. Thank you.

### Bernhard Günther

Yeah Peter, I think I'll take the first one and then Markus the second one on Swedish nuclear waste. And in Russia. Yes, I think you understand correctly the key step we had to take was the Strategic Investment Law, which has been changed, and now from a Russian perspective also we would be allowed to own 100% in Uniper, who in turn is the majority shareholder of Unipro. Obviously, we don't own 100% in Uniper, but at least there would be no obstacles in Russia if we were to decide at a later stage, as Markus commented.

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The other thing is the merger or antitrust approval from a competition point of view – the so-called FAS or the competition authority in Russia – where we basically now do not pursue a filing. This would be necessary if we were to go into some sort of integration between Fortum's Russian operations and Unipro which go beyond an arm's length principle. Or if we were aiming for a kind of domination-like structure where we would instruct Unipro. This is not possible technically anyway, because in between Unipro and Fortum, there's Uniper, and there as you know we don't have a domination agreement or full 100% control anyway. So, this is, I think, something that currently would be of no particular value to us. Therefore, it's on a low priority.

## **Markus Rauramo**

And then shortly on Swedish nuclear. You are correct, so it's not only concerning Oskarshamn, but it's concerning the whole Swedish nuclear or all Swedish nuclear operations, not only Fortum's.

## **Peter Bisztyga**

Okay. And sorry, that 80 million, is that – can you just clarify where that additional cost comes from? Is that something that will kick in in – I think you mentioned 2024 is when this all becomes a problem.

## **Markus Rauramo**

At least one angle there is that we are really facing a physical problem that the intermediate storage is actually filling up. And I'd honestly have to come back on more details, but my understanding of the factual problem is that in Finland we have already decided on how to do the final depository of spent nuclear fuel and in Sweden that is not clear. And then we can't either expand the intermediate storage before there is clarity on the long-term storage. So, it will ultimately lead to less nuclear production if the intermediate, where storage becomes a bottleneck.

## **Peter Bisztyga**

Okay, thank you.

## **Operator**

And our next question is from James Brand from Deutsche Bank. Please go ahead.

## **James Brand**

Good morning, thanks for taking my questions. I have three questions, one of which is a follow up on the topic that was just being discussed on this nuclear repository issue. So, just to double clarify on the 80 million – the 80 million is an industry-wide estimate of the costs associated with delaying the permanent nuclear solution. It doesn't relate to the points that in the statements you were making in the prior paragraph, which is that you might have to shut Oskarshamn. I presume there will be an additional cost if it happened.

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And then secondly, how credible do you think this scenario is that you will have to shut Oskarshamn? You were implying in the in the statement that if this government approval doesn't come through within the next two weeks, that that's what's going to happen, but presumably some kind of solution would be found where you could increase the storage on the site. So, I'd be interested in your perspective on that. That's the first one, I guess a double-parter.

Secondly, on biomass and the kind of Fit for 55 proposals. There were some proposals in there with some stricter rules on biomass. I read that some of the Nordic industry or utility industry was a bit unhappy about that might impose some stricter rules. Does that affect you at all as you're kind of selling most of your district heating, but would you be affected at all by those stricter rules on biomass use that's being proposed alongside the Fit for 55 proposals?

And then thirdly, I think it was potentially asked earlier but I'll ask it in a slightly different way. On the Uniper dividend, obviously they haven't clarified it yet. What's Fortum's perspective on that? You mentioned earlier your own dividend and that was an absolute priority for you to maintain that, but you're not necessarily dependent on the Uniper dividend. Would you like to see continued high dividends from Uniper or is there some reason why you might support a lower dividend from Uniper? Thank you very much.

## Markus Rauramo

Okay, maybe I start with the biomass. So, after the divestments of Stockholm Exergi, Joensuu, Järvenpää, and the Baltic operations, we have little biomass exposure left. So little impact for us. Then the clear communication on the Swedish case. We tried to make the point clear that there has to be a decision eventually. Nuclear plants have been running for decades in Sweden and in Finland, for example, what was decided to be done and planned already in the 80s was almost with one year accuracy then put into action in the 2020s with the decision to actually start the final depositary. So, we really want to make that clear point of the nuclear operators in Sweden that a decision is needed. That's a societal responsibility.

And then, I can comment on the Uniper dividend. So, the key point that one would be considering is that what is the balance between growth dividend payments, strength of balance sheet in Uniper, and Uniper will make its decisions and proposals. And we as owner will make our decisions when the proposals are there in due course. And with regards to Fortum's dividend we announce it typically the board's dividend proposal to the AGM in connection with the full year result. So this is the alignment to refer to earlier that we need to align the timing of this discussion and dialogue.

## James Brand

Thanks very much.

## Operator

And our next question is from Iiris Theman from Carnegie. Please go ahead.



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### Iiris Theman

Hello. I have still got two questions. So, firstly related to generation. It seems that your optimisation premium included in your ASP calculation was very good and perhaps higher than in Q1. So, can you comment what supports your optimisation premium and if there's something that supports also in Q3?

And then my next question is related to net power generation next year in the Nordics. Do you expect some overcapacity due to Olkiluoto 3 going online? Thanks.

### Markus Rauramo

Maybe I take the Olkiluoto 3 question and then Bernhard can take the optimisation. So, I assume actually referring to my earlier comment about the Nordic power market and power forwards that the market takes into account the information in the Nord pool market that TVO is posting there. So, I assume that that the Olkiluoto 3 start-up schedule and then the PTO, they are fully reflected, or they are reflected in the forward prices.

In the bigger picture, what has happened is that Sweden has been closing down nuclear capacity about the same amount as Olkiluoto 3 is bringing more to the market. So from a kind of Nordic balance point of view, nuclear is pretty equal, and what this would do in theory is that Finland would in theory need to import less than it has been doing in the last years, which has actually been quite a lot. So, varying typically from one gigawatt to even three gigawatts, depending on the supply/demand balance and time of year, so this will make Finland a little bit less import dependant.

And then do you want to take the generation optimisation?

### Bernhard Günther

Yeah. Your question on the optimisation. So on top of the kind of average price as hedged, I think it's no surprise that in quarters where we see a very high volatility of prices, also there are more opportunities for our physical and financial optimisation. We do not reveal any specific numbers on it other than the bandwidth between €1 to €3 per megawatt hour typically, and in good quarters, obviously it's more to the upper end than the lower one.

How this goes on in Q3? We will report in due time, so let's see how the markets develop and one thing I learned in my many years being exposed to commodity trading is that it's very hard to predict the future there, even harder than in most other businesses.

### Iiris Theman

Okay, thank you very much.

### Operator

And just as a reminder, if you do wish to ask a question, please press 01 on your telephone keypad.

Our next question is from Jesper Stan from Bloomberg News. Please go ahead.

## Jesper Stan

Hi. I'm just wondering if you could say anything about the change in fair values of the derivatives from the Uniper segment; what is it related to?

## Bernhard Günther

Yeah, to do so – so the derivatives whose change in fair value you see here are derivatives out of Uniper's generation and gas mid-stream business where they hedge their positions, but due to the reasons that they are constantly re-optimising these portfolios and under IFRS they cannot be put into own use or hedge accounting which would neutralise the mark to market swings of these hedges going forward until full realisation.

So, we have basically an economically hedged position where our original position – be it gas mid-stream or generation – realises upon delivery, whereas the hedge every quarter swings with the market prices and because this is how it's shown under IFRS, we think this is – IFRS is exactly creating the opposite picture of the underlying economic position, which is hedged. But IFRS creates earnings volatility, and this is the reason why we adjust it and this quarter it has been a very large swing at Uniper, because we had this high volatility of commodity prices. Did this help?

## Jesper Stan

Yes, thank you.

## Operator

And our next question is from Sam Arie from UBS. Please go ahead.

## Sam Arie

Hi, good morning, everybody. Thank you for the presentation today and all your helpful answers. A couple from my side. One hopefully very easy. You say in the report today that you spent a bit more money on Uniper shares, but I don't think you gave the actual percent stake that you now have, so I wonder if you could just confirm what your ownership stake is as of today? And if I've missed that in the papers this morning, my apologies.

And then second one: Maybe Markus this is for you, but coming back to your comments earlier on the disposal and asset rotation sort of portfolio management actions you have been taking. I mean, it seems you've been very disciplined there. You're on track for your leverage target, but you're still looking at businesses that you might not want to own longer term, and I was wondering with that in mind and your comments just now on a previous question, can you talk about Uniper's global commodity business and how you see that sort of fitting with your goals for the Group longer term? Is that a core activity that you want to stay in, or is that something that in a few years' time might be under review like the retail business is at the moment? Thank you.

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### Markus Rauramo

Yeah okay, I can take these two questions. So, you are correct in that we did not actually disclose what is our ownership percentage in Uniper exactly today. We have been buying shares, as you have seen from the announced numbers earlier, and you see that there are acquisitions of shares, but we don't give an exact number. I'll leave it at that; that we have not ruled out buying more shares. We have ruled out the DPLT or squeeze-out.

Then with regards to disposals and global commodities. Two key areas where we are focusing strategically is clean electricity and increasing the clean gas, and the third leg, the industrial and infrastructure solutions. In both of these, or in all of these three areas, we actually see that the regulatory, political, technical, technological, and commercial fundamentals make these all three areas very interesting for us, because there are big growth and investment opportunities and great opportunities to use our competencies. So, these are the three areas where we will pursue growth, and which will be in our focus.

Having said that, I will still make the point that this doesn't exclude either that even within these segments, of course, we may look at certain assets that may not fit an exact focus of ours – I'll take an example of this small hydro plants where we have done rather significant transactions even in hydro, which we would not probably define as very core to us, but then the core is large modern power plants that we can continue to optimise, and then the ones that have been in the single-digit megawatt scale, we have been happy to divestment and sell to an owner whose focus is in that scale.

### Sam Arie

Interesting. Okay. Markus, would you mind just quickly if I ask you a kind of related follow-up question? Against this kind of focus on clean electricity, clean gas, the general decarbonisation theme that you're pushing through the Fortum and Uniper business, I just wondered if I could ask your opinion on a big, big project that is coming up in Russia. I think there was a question on this on your Q1 results too. But [unaudible 01:08:05] has got this big Rostov development coming up and they said in June they are now out there looking for contractors to kind of get started on that whole project which includes 3.5 gigawatts of power generation and a high voltage transmission line and so on.

I'm just wondering what would your position be on sort of clean energy for an oil development. Would that fit your decarbonisation priorities, or would that be – would you think of that as fundamentally fossil CAPEX?

### Markus Rauramo

Overall, I'm very happy to see such developments and this is in line with also what I took away, for example, from the St. Petersburg Economic Forum. Russia is now taking decarbonisation very seriously, and I assume that it because Russia wants to continue to export their products, their fuels, their technology, and energy out of Russia, but understands very well that it needs to be decarbonised.

I think something underpinning this is that during this Economic Forum, we signed four contracts for delivery of CO2 free electricity from our wind operations actually to oil and gas players, amongst others, and technology suppliers. I'm happy about such activity and I'm happy that now Uniper is part of our family because Uniper's big business is origination, so stimulating supplies of increasing the clean energy, stimulating and catalysing demand of cleaner energy, and then matching these interests and being able to absorb risk and run energy books and portfolios. That is our business.

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So, compared to what Fortum was before, we have now completely different kind of abilities to participate and catalyse such activities.

### **Sam Arie**

Very interesting. I appreciate your comment. Thank you very much.

### **Operator**

And just as a final reminder, if you'd like to ask a question, please press 01.

Our next question is from Lueder Schumacher from Société Générale. Please go ahead.

### **Lueder Schumacher**

Hi. Just one follow-up question on my side. When I look at your power price hedges, and Uniper's I do not get the impression that both units actually belong to the same company. Uniper was quite bearish and locked in low prices at an early stage. You, on the other hand, are quite open, so expressing a bullish view on power prices and you do have exposure to surging power prices. So, is there any corporation going on at all between both units or are Fortum and Uniper just doing their own thing when it comes to hedging power prices?

### **Markus Rauramo**

A couple of angles there, so one is that if you look at the hedge price levels, then the Uniper and Fortum portfolio are in different price areas, so by definition, if the prices vary there, even if we would hedge exactly at the same time, same amount, the hedge prices would be different.

Then another angle is that the books you see today on the page here, this is a result of historical activities, so these hedges have started before we had One Team's activities and before we had the type of cooperation between the companies we have today. So, over time, one could assume that our views will converge and there will be a more coordinated approach on the hedging, but this is a result of history, of different price areas, timing.

### **Lueder Schumacher**

Okay, could the price areas then – what are you saying; there is cooperation going on now, but it will be a while until it's visible?

### **Markus Rauramo**

There's definitely cooperation going on because the Nordic hydro was one of the announced One Team's approach areas. So, a very core activity for us.

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### **Lueder Schumacher**

Thank you.

### **Operator**

And there are currently no further audio questions. I will hand the word back to the speakers.

### **Ingela Ulfves**

Thank you, Moderator, and thank you all for your questions. So as we're done with the teleconference, we still have some questions on the chat, so I now hand over to Måns to ask those.

### **Speaker 1**

So, the first question comes from Mika Majander and he asks that you have 25% unhedged for 2021. He correctly assumed the unhedged values to be sold at between €55 and €65 levels that we see in Nord Pool.

### **Markus Rauramo**

Yeah, I'll take one step back actually on this one because it's a good question. So, you have seen historically that the production volumes because of hydrology, they vary quite a lot, so you would not even normally expect us that we would go close to 100% hedging levels because we may end up being over hedged.

Then to the exact question, you are correct that whatever – then if the spot price, if it's unhedged, then it is the spot price that we will get, plus the optimisation, plus everything else, but for the underlying production, yes.

### **Bernhard Günther**

Of course there might still be a slight difference to the average spot price because also we have our production in certain areas of the Nordics only.

### **Markus Rauramo**

Exactly, so I'm not making reference to the price level that Mika is indicating, but just saying that spot is what we receive if we sell unhedged this spot.

### **Speaker 1**

And then we have a question from Kim asking about our City Solutions segment and the recycling waste and bio businesses there and if we have plans to grow that business.

## **Markus Rauramo**

The recycling waste solutions, we have actually been being growing. So, we have been investing in acquisitions over the past years and we continue to see interesting opportunities. One of those was, for example, the announcement on the Harjavalta battery recycling facility. So, circular economy solutions is something – or in addition to we discussed IPCC report and climate change. But the smart use of materials is something that the society will need to focus on as well. So that gives the recycling waste solutions future possibilities.

## **Speaker 1**

Thank you. Then we have a question from Olav Bilnäs, asking about our One Team cooperation in the hydro optimisation and physical trading, and asking if we also have plans to merge the financial trading with the two companies.

## **Markus Rauramo**

The plans that we have announced for the time being are the plans that we are working on or the potentials. And I would say that in addition to the three One Team areas, in due course we will look at the other possibilities to create value in other activities, but these are the three that we have focused on for the time being.

## **Speaker 2**

Thank you. And then we have one question with regards to the Fortum Board of Directors and their share ownership in Fortum and why it is so low.

## **Markus Rauramo**

I think that's a question that one would need to directly address to the Board of Directors. Actually, if I turn then to the Fortum management, there the requirement or expectation from the Finnish Government Ownership Steering is that the companies where Finnish government has ownership that the management should own one year's salary worth of shares and I think that is to the large extent well delivered on Fortum's part. So, as management, we own a substantial amount of Fortum shares. I myself own significantly more than one year's salary worth of and I have been buying myself as well.

And we have the Fortum For Shares programme also where we incentivise the wider Fortum employees to acquire Fortum shares through the For Shares programme, which we are very happy about. The pickup has been very, very strong in the company. So, share ownership of our employees is something we take very seriously.

## **Speaker 1**

Okay, thank you. And then there were two questions regarding the Swedish nuclear waste and then regarding the hedge levels, but I believe those have already been answered, so no more questions from the chat.

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### **Ingela Ulfves**

Thank you so much everyone for your questions and active participation here today. So, this now concludes our Q2 presentation and on behalf of Fortum, we wish you a very nice rest of the day. Thank you.

### **Markus Rauramo**

Thank you for very everybody for participating and great to be here together now physically with Bernhard. So, really enjoyed it. Thank you very much. Bye-bye.