



Transcription

Fortum Q4 2021 Interim report

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Fortum Q4 2021 Interim report

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PRESENTATION

Ingela Ulfves

Good morning, everyone, and a warm welcome to our webcasted news conference on Fortum's full year results 2021. Just for the record, this event is being recorded and we will provide a replay after the event later today. My name is Ingela Ulfves, and I am the Investor Relations Head at Fortum. With me here today are our CEO, Markus Rauramo, and our CFO, Bernhard Günther.

Markus will start by commenting on our Russian businesses before moving into last year's performance. Bernhard will then provide more insights into the full year 2021 results and the drivers. After the presentation, we will open up for questions from the teleconference. We have reserved one hour and 15 minutes for this webcast event today. So, with this, I hand over to Markus to start.

Markus Rauramo

Thank you very much, Ingela. Let me first address what has been on our mind over the last days and how we assess our Russian exposure. Following this, I will then guide you through the headline performance indicators and the market drivers that have played a substantial role, especially in the fourth quarter, with outstanding movements in commodity prices.

Additionally, I will share my view on our operating environment and link this to how we are progressing with our strategy implementation. Bernhard will walk you through the numbers in more detail. I will start with setting the frame, looking at the geopolitical situation.

I'm deeply saddened and concerned by Russia's attack on Ukraine. We all are at Fortum. As Europeans, we know from our history that military force is the worst way to solve political conflict. Over the past week, we have already witnessed what great suffering the war in Ukraine is causing people. This cannot be justified. The war has also shaken the relationship between Russia and Europe profoundly. The damage done to the ties that we have built up over decades will be far reaching. As you know, Fortum has long business relationships and broad operations in Russia. So, we are following the situation with the highest attention. In this critical situation, it is our duty to care and to focus on the well-being of our employees and our commitments to our customers.

We are in the business of providing security of supply of energy and our customers depend on us for power, gas, and heat – also in Russia. All of our operations are currently running as normal, so we can fulfil our duties to our customers. At the same time, business as usual cannot continue. For now, we have stopped all new investment projects in Russia until further notice, and we will continue to reduce our thermal exposure in Russia. We are also, of course, closely monitoring the developments of sanctions. The situation is very dynamic, and it is very difficult to predict the impact on our operations in the future.

Yet, it is obviously clear that we are complying with all applicable laws and regulations, including sanctions, and preparing for various scenarios. In case the escalation of events would hinder us from fulfilling our energy delivery commitments to our European customers, we would work with our respective regulators and governments to find a joint solution.



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

In this situation, it is clearer than ever before that Europe urgently needs an energy transition and Europe needs to diversify its energy sources. We're actively supporting a sustainable and secure European energy supply through our investments into clean power, clean gas, and flexibility. This morning's announcement on our decision to apply for an extension to the lifetime of our Loviisa nuclear power plant in Finland, Uniper has recently increased LNG imports and decision to resume planning of a hydrogen-ready LNG terminal in Wilhelmshaven in Germany are clear examples of this commitment.

Before I move on to our annual results, let me just say that in this unprecedented situation, we are in great need of resolve and a new level of cooperation in energy across Europe. I want to thank our colleagues across Fortum and Uniper for their commitment and determination in securing energy supplies for Europe in these uncertain times. Then, over to the results.

2021 was characterised by very volatile market fundamentals, with unprecedented commodity price levels resulting in an outstanding performance across the Group. On a full-year level, we achieved highest comparable EBITDA, highest comparable operating profit, and best comparable EPS ever in Fortum's history. Even though it is good to remember that we had some sales gains and consolidated Uniper first time fully in all quarters, the performance was very strong despite the very challenging market environment. Worth mentioning is also that due to the commodity price fluctuations and IFRS accounting, our reported EPS shows a negative result. Bernhard will guide you through this in the financial section.

Looking at the balance sheet, our leverage – defined as financial net debt to comparable EBITDA – has come down tremendously. We have substantially worked to strengthen our balance sheet and are way below our set leverage target of below two times. By deleveraging, we are well positioned to navigate through these turbulent times. Q4 profit was operationally very strong, as nearly all segments could take profit from the strong commodities environment. On the flip side, our consumer solutions business suffered substantially from this market situation.

It has been a challenge for the whole organisation to deal with this extreme market development, especially maintaining security of supply for our customers and keeping financial liquidity high in order to manage the collateral requirements caused by rising prices. Uniper took a series of financial and operational measures, including Group support and an undrawn revolving credit line from the German state-owned KfW bank to ensure sufficient liquidity. Those measures are also reflected in the operating cash flow that doubled on full year and in the isolated quarter.

In this context, let me highlight that we support Uniper management's proposal to put a stronger focus on liquidity and investment capacity and to cut the payout for 2021 to the minimum dividend under German Stock Corporation law. At the moment, I don't see any reason for Uniper to pay a dividend going forward either.

Fortum's dividend policy is to pay a stable and over-time, growing dividend. This is reflected in the dividend proposal of €1.14, which is a slight increase to the previous year. To sum it up, stronger performance in a volatile commodity market with an organisation giving its best, serving our customers, working closely with our suppliers and maintaining our strong financial flexibility.

Now over to the underlying market fundamentals. As I said, it is obvious that volatility increased on all energy commodities last year. Energy commodity prices soared in the fourth quarter, supported by ongoing economic recovery and global supply constraints, especially in gas. Higher commodity demand, combined with longer-term negative investment trends and supply constraints, created an unprecedented price rally. Gold prices were soaring, and at the same time, CO2 prices



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

reached record high levels. Consequently, gas, coal, and carbon prices underpinned the very strong price development in the European power markets.

Continental power prices gave a boost to the Nordic spot price, which was also supported by lower precipitation and less wind. The spread to German power prices is nevertheless quite large, especially in forward prices. Besides strong wind buildout, internal transmission net and interconnector restrictions and bottlenecks also affected the widening spread.

Looking at the forwards, the market expects the tight situation to continue in gas and continental power markets until summer 2023. So, what is my read of this from a CEO perspective?

The last 12 months crystallised four main trends that I partly already touched. I believe, that amongst all the turbulence, these trends are still very valid. First, Europe is committed to be a frontrunner in reducing greenhouse gas emissions across all sectors to fight climate change and to accelerate the energy transition. Sustainability is the licence to operate.

Secondly, as Europe is accelerating the buildout of intermittent renewable capacities, replacing conventional capacity, the need for security of supply is becoming more obvious. Not just in the context of the current crisis, but also in the context of increasing electrification over time.

Thirdly, given the decreasing investments in conventional fuels and capacity, supply imbalances and cost inflation drive an elevated price environment which is jeopardising affordability.

Fourthly, the current geopolitical situation suggests that the elevated price scenario is here to stay for the longer term. The market will further price in uncertainty and value security of supply. While some of our peers focus solely on the buildout of intermittent renewables, we took the conscious decision to focus on a fast and reliable transition to a carbon neutral economy. We provide our customers and societies with reliable, flexible, and clean power and gas, addressing the ultimate needs in the transition. And we do this today, not in ten years' time.

The corner of our business is the strong hydro and baseload nuclear, making us the third largest CO₂-free generator in Europe. We are also a significant provider of flexibility with our hydro, increasingly clean gas fired generation, and our gas storage business. 2021 proved that our position as a major power generator in Europe and as a major provider of gas is needed in the European energy transition. We have a strong balance sheet, and we have the resilience to weather the storm.

Our priorities are to decarbonise our portfolio and to drive profitable growth without compromising on Fortum's dividend and financial strength. So, how are we progressing against these targets? First, Fortum is a frontrunner in creating clean energy generation for decades. In addition, to our already ambitious climate targets that cover Scopes I and II, we set out our reduction targets for Scope III, which means indirect greenhouse gas emissions in December. We will reduce these emissions by 35% by 2035 at the latest.

In Europe, we are advancing fast with our coal exit. In our Uniper business in Germany, we were successful also in the latest round of auctions for the closure of coal-fired power plants. The bid for the closure of the Staudinger 5 power plant was accepted, making our subsidiary Uniper the biggest contributor in German coal exit auctions, more than from any other company.



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

Secondly, we are ramping up our CO₂-free power generation. This year, we will get the addition of [? 00:13:35] 3 with our share of 40 MW. And in addition, we decided to apply for the lifetime extension of our fully owned Loviisa nuclear plant. I will come back to this.

We are also proceeding with our investment in renewable growth, which includes the launch of our first Fortum and Uniper wind and solar team project. Pjela-Böle and Kristinestad Norr wind parks to be built in cooperation with Helen, the Helsinki city-owned utility. We also won rights to build more renewables, both in India and in Russia over the next years that are backed by PPA, so CSA payment. However, as I said before, we have now stopped any new investments in Russia for the time being.

Thirdly, we are providing security of supply to the grid operators in various forms, as well as to industrial customers. For example, in [? 00:14:33], we replaced an existing coal-fired power plant by a modern, combined-cycle gas turbine, and there are plans to reduce its CO₂ emissions towards 2030 by converting from natural gas to hydrogen. Additionally, we will have a capacity of 1 GW of electrolysis in place by 2030, which shows that we can build on our first-mover position in hydrogen.

This morning we disclosed that we have decided to apply for a lifetime extension for our 100% owned nuclear power plant in Loviisa in Finland until the end of 2050. We are going to offer 170 terawatt hours of additional CO₂-free power for the European power markets over the lifetime extension. By applying for the extension, we want to support the achievement of Finland and Europe's carbon-neutrality target, provide security of supply and competitive and sustainable energy.

Over the last five years, we have invested some €325 million in the Loviisa power plant. Investments related to continuing operations and the lifetime extension are estimated to be €1 billion. With this, I hand over to Bernhard.

Bernhard Günther

Thank you, Markus. And a warm welcome also from my side. As usual, I will start today with a financial overview of our key comparables, but as this year was a rather exceptional one in terms of market price movements, I will additionally run you through some reconciliations, how the market volatility has been impacting our P&L balance sheet and liquidity. To have more time for the Q&A session, I will comment the segments only on an aggregated level today and close with the outlook section.

Starting with the financial overview, let me begin with the obvious. What you see here is a substantial increase across all KPIs following market fundamentals, as Markus has said. These give a comprehensive view on the strong underlying contribution that we have seen throughout the year, adding an even stronger fourth quarter, also in the light of the already good contribution we had in 2020.

Our financial position improved following the closing of a series of our divestments, as Markus said, and our credit metrics are now solid with the financial net debt to comparable EBITDA being at just 0.2x against a target of below 2x. As this is also driven by liquidity measures taken by Uniper and the Group, the ratio is expected to reverse somewhat in the course of the year.



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

The strong increase in commodity prices has impacted the balance sheet and liquidity, and before going into the details, let's have a short segment overview. Looking at the full year earnings figures, we see a substantial increase in comparable operating profit. Nearly all business segments are up year on year and could take profit from the market environment. What you see here are, in essence, three things.

First, we could materialise on the commodity price increases across the Group. This holds true for the generation business, with an outstanding surge in the chief prices and strong physical and financial optimisation. The City Solutions business gained from higher heat prices and volumes, and Uniper's gas business gained from the optionality in the portfolio. Russia also performed well, but we will see lower CSA income going forward.

Second, like all retailers, we suffered from the high price levels in Q4 in our consumer solutions business, showing a negative year over year delta and a negative result in Q4. And third, there are some consolidation effects at play to bear in mind, and this is that Uniper was only fully consolidated from Q2 2020 onwards and was still included as an associate company in the first quarter of 2020. In the first quarter of 2021, Uniper contributed €711 million.

We also announced this morning that we are discontinuing the strategic reviews of our Polish district heating business and our consumer solution business. We have decided that we will continue to develop these businesses as part of the Group. Now over to the P&L.

A strong increase in market prices gave us, and especially our Uniper segment, major opportunities to optimise the portfolio. Next to the strong comparable earnings picture, it had a series of effects on our reported figures. These movements are not a source of concern, but rather a normal course of business running a commodities business.

The main issue is the increase of the fair value of our financial derivatives impacting our P&L balance sheet and liquidity. The rationale is the following: As we run the business in a prudent manner, we hedge to lock in cash flows and results to ensure continuous operations, financial liquidity and to deliver on our promise of a stable and over-time, growing dividend. As commodity prices surged, the hedge deals decreased significantly in value; however, the corresponding value on underlying assets like power plants or inventories are not reflected here as their book values are kept at historic costs under IFRS.

Consequently, the operating profit is negative for the full year. This is mainly driven by the Uniper segment as they have the strongest exposure to commodities. This mismatch is only temporary and will revert and resolve over time as these products go into delivery and the positions settle. Therefore, as we already saw in the last quarter, it will turn back and come as a profit. We adjusted for this, like for any other one of the items affecting comparability. On the full year, there is a negative of 5.4 billion change in the fair values of derivatives, mainly again in the Uniper segment as hedge accounting is applied only to a limited extent there.

The other Fortum segments are applying hedge accounting and thus the volatility in valuation is balanced versus equity. This effect is only partly compensated by the well-known capital gains of the divestment of our 50% stake in Stockholm Exergi and the Baltic District Heating also included in the items affecting comparability.

Last but not least, income tax is significantly positive as a consequence of the recorded fair value losses, while the comparable income tax rate was 24.2%. And now over to the balance sheet.



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

Here, the increase in commodity prices had a significant impact on the derivative financial instruments, especially again in the Uniper segment. Please note that those are booked on a gross basis to the balance sheet, so all deals increase the balance sheet, even though maybe the same product has been sold and bought back and forth over again. Consequently, the substantial increase in the fair value of our financial derivatives made the balance sheet tripled to roughly €150 billion from €57 billion where we were a year ago.

As most of our hedges are placed at traded market, the collateral and margin requirements have gone up substantially. Uniper faced a steep increase and volatility in variation margin calls in the third and fourth quarter last year. We are working closely together with Uniper, their business, as well as their financing partners to make sure that those calls and the resulting liquidity risks are properly managed. Consequently, interest-bearing liabilities increased in the context of a series of precautionary financing measures taken then.

Additionally, Uniper relied on a broad set of tools and various operational measures within the commodities portfolio. Consequently, at year end, we had 7.6 billion liquid funds plus undrawn credit lines, providing additional headroom in these turbulent times. These measures taken are also reflected in the cash flow statement now on the next slide.

In essence, the cash flow statement confirms what we have seen in the balance sheet. The net cash out of the change in margin in receivables and liabilities is covered by additional financing, the sales proceeds from divestments and by a high operating cash flow. This operating cash flow doubled from roughly \$2.5 billion in 2020 to close to \$5 billion in 2021. This was mainly driven by a higher cash effective EBITDA due to higher earnings on the one hand, but also due to operational liquidity measures undertaken by Uniper, as was mentioned before, on the other hand.

The cash flow from investing activities is clearly driven by the divestments and the margin receivables. One word on our financing activities: in order to achieve high liquidity in the most cost-efficient way, Fortum and Uniper used a broad set of financing tools, including commercial papers, bank loans, intra-Group loans, and ultimately also operational measures within the commodities portfolio.

The next slide shows net debt and our maturities profile. As you can see here, our net debt declined significantly. Let's look at the major items impacting financial net debt. First, the highlighted cash flow from operating activities, including the comments I made to the previous slide. Second, the divestments made and third, the investments paid. Dividends paid include the dividends to Fortum shareholders and to the minority. The minority part will reduce this year by approximately €100 million, assuming that Uniper's AGM will approve the minimum proposed dividend.

As Markus highlighted, we do not see a reason for Uniper to pay dividends going forward. We see them rather focus on liquidity and growth in the coming years. So, this will enhance our cash flow and have a positive effect on net debt. And I mentioned already before, the overall leverage KPIs of 0.2x net debt over EBITDA, so I'm not going to repeat it here.

We currently have 16.1 billion of gross debt and an average interest rate on this of 1.3%. Looking at the loan maturity profile in the lower part of this chart, this might appear a bit front-loaded, but please note that the increase in short-term liabilities is linked to our cash reserves as we wanted to increase our financial flexibility in this extreme commodity market situation. At the same time, our liquidity position is very solid, with liquid funds of approximately €7.6 billion. In addition, we have signed new RCFs of €5 billion and these are undrawn.



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

So overall, our liquidity position is solid. And regarding our rating, we are in continuous dialogue with our rating agencies following the liquidity stretch at year end. Our rating was affirmed in January and obviously, we now have a new situation with Russia and our discussions continue with the rating agencies.

Now, finally, coming to the outlook, our successful hedging has continued to create predictability and visibility. The hedge prices for our generation segment increased for this year, while it is at the same level in Q3 for the year 2023. The explanation for the decline in Uniper Nordic hedge prices is the use of proxy hedges, and as those proxy hedges moved out of the money, the hedge prices, as shown here, went down.

It is also good to note that the here-shown hedge prices are only for outright volumes, i.e., hydro and nuclear, so gas or coal are not included. The same applies also for the Uniper disclosures. Regarding CapEx for 2022, the level is expected to slightly increase compared to 2021, and our total Group CapEx is estimated to be approximately €1.5 billion, of which maintenance is expected to be €800 million roughly. For the year 2022, maintenance CapEx is at the upper end of the range of what we would call normal maintenance CapEx, which would be in the ballpark of €750 million. We have slightly narrowed the range for our tax rate guidance. At the same time, the tax rate is slightly increased as the result makes the shifting towards countries with a higher tax rate.

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



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

Q&A

Ingela Ulfves

Thank you, Bernhard, and thank you also, Markus. We are now ready to take your questions. Please state your name and company before asking the question. And we will also ask you to limit yourself to max two questions each. There is also the possibility to ask questions on the chat. However, if there are very many questions coming from the teleconference, we will have to prioritise those and therefore I ask you to also leave your contact details when posting a question on the chat so that we can come back to you later. So, with this, let's begin the Q&A session. Moderator, we're ready to start.

Operator

Just as a reminder to participants, if you do wish to ask questions via the phones, please dial 01 on your telephone keypads now. And if you find your question on questions have been answered before it's your turn to speak, you can dial 02 to cancel.

Our first question comes from the line of Lueder Schumacher of Société Générale. Please go ahead. Your line is open.

Lueder Schumacher

Good morning, and thank you for the very detailed presentation. So many questions, but I shall try to limit myself to two or two and a half-ish. The first one is on the renewed surge in energy prices since last Wednesday. If understood you right, Bernhard, you said that you have lined up an additional \$5 billion credit line to deal with variation margin demands. Are you also in a position to extend the credit line for Uniper, if that would be required? And also, Markus, you said that you see no reason for Uniper to pay a dividend going forward either. Could you maybe elaborate a bit on what exactly you mean by that? Why should Uniper not pay a dividend?

Markus Rauramo

I can start so first. First of all, on the energy prices and the margining impact. We have been moving a lot of positions from counterparties that require margining to non-margining counterparties, so the exposure is smaller on that front. And on the Uniper dividend, the Fortum message is that Uniper should be focussing on maintaining its liquidity and focus on the growth areas. With regards to your question that can lines be extended further to Uniper. Uniper put in place the KfW transaction. Fortum has arranged long-term financing also for itself and extended the credit line to Uniper and we will follow the situation and take financing measures according and based to the needs.

Lueder Schumacher

So, before you would offer any additional credit line to Uniper, you would require Uniper to use the 2 billion from the KfW, which would mean that the Board has to waive any—



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

Bernhard Günther

No. We don't give any specific details on this, Lueder. And good morning from my side as well. But I mean, it's quite obvious, for example, as Fortum is currently on a very strong liquidity position, it would be unwise to resort to external financing while with intra-Group you still have significant liquidity buffers. But as Markus said, of course we are watching the situation and we feel very comfortable that also within both politics in general, but also in KfW as a state-owned bank, there's much awareness of the developments going on.

Lueder Schumacher

OK. Very clear. Thank you.

Operator

Our next question comes from the line of Vincent Ayril of J.P. Morgan. Please go ahead. Your line is open.

Vincent Ayril

Good morning. I'll stick to two questions. I'll come back on the variation margins, but I'll start on Russia. Just to understand, thank you for the information on your Russian exposure here. [? 00:34:17] the Nord Stream 2 pipeline or actually the operations you have there, directly or indirectly through Uniper. We do not see any impairment. There have been some sanctions. Well, of course, it may be a bit too early to do it. It seems that Nord Stream 2 may be looking – may be, reportedly – looking at filing for bankruptcy. What are the necessary conditions for you to do an impairment on the Russian assets? Just to understand, there is a red line after which basically you have to act on this. So which line is it? And should we take it that it's a 5.5 billion impairment as per the slide?

The second question on [? 00:35:05]. So, I noticed you say that the [? 00:35:09] of the Ukraine line hasn't grown. When you size basically the situation for the variation margin, are you looking at spot or calendar forward? There is a very large discrepancy between the two at the moment. It's just for us to understand basically which is the one we should look at in order to assess if the situation is deteriorating fast or extremely fast. Thank you.

Markus Rauramo

I can take the Russia situation and let Bernhard answer the technical side of impairment and also the variation margin. So, to start with. First of all, as I said already earlier, we are devastated and saddened about the situation, what is happening. The situation is serious, and it will have long-term consequences. That is clear. Against that background, the situation with our operations is normal. Our operations in Europe are working. Our operations in Russia are working normally. Gas is flowing through all the pipelines that are operational. And our main focus is on the security of supply of our customers, of our European customers, to provide clean energy, green gases and the flexibility that they need.



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

And I highlighted the need for energy transition. We are very well positioned for that. What comes to the total exposure, you quoted our statement of the 5.5 billion net asset value in our books. That comprises of Fortum, Uniper and the Nord Stream 2 exposure. And then naturally, we follow in the normal course of business. If there are indications, impairment indication triggers, that we would observe and we would have to take action based on that.

And then the technical part of that I give to Bernhard.

Bernhard Günther

Maybe just quickly asking back on your variation margin question. Did I understand you correctly that you alluded to the difference between spot and forward curves prices we're looking at or was it something different?

Vincent Ayrat

Yes, absolutely.

Bernhard Günther

For our overall exposure as Fortum Group, including Uniper, the whole forward curve is much more relevant. So, it's not the immediate spot volumes which are of a nature that would cause major variation margin swings. So, it's rather the curve along the time horizons, at least until the end of the next winter, we are closely looking at. We view this, as Markus said, as a long-term business, it's about security of supply and accordingly, also, our positioning and optimisation of this business and the hedging of this business is conducted.

Vincent Ayrat

All right, thank you. So, if I take it basically that means this would be weighted average by the volumes and therefore the calendar 23, maybe a bit more than the spots in terms of—

Bernhard Günther

In effect, without giving you any specifics, but of course, we are looking at the product in the granularity that they are traded. So, for the immediate period until the next winter, you can have monthly product and you have quarterly product and thereafter the buckets get a bit broader. So, we hedge on as granular a basis as we can, and we do this in order to optimise also our liquidity exposure there.

Operator

Our next question comes from the line of Deepa Venkateswaran of Bernstein. Please go ahead. Your line is open.



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

Deepa Venkateswaran

Thank you. So, my two questions: I wanted to focus on the liability or consequences in case there's a disruption of physical flows from Russia, given approximately whatever the 200 terawatt hour of procurement contracts that Uniper has. Could you maybe explain to us what happens in that situation? Clearly, the spot prices will go high and maybe there is actual shortage of gas. So, what happens in that event? Who bears that loss? And obviously, depending on the extent of shortage, we could be talking about some huge numbers. So, in that situation, in your scenario planning, I just want to understand, would you be ready to, if Uniper needs new equity, would you be ready to invest in?

So maybe if you could just talk us through what happens in these extreme scenarios and who has to bear this price consequence? And secondly, on the dividend policy, [00:40:22] outlined that there's a liquidity issue that Uniper needs to focus on now and growth in the future. I just wanted to also understand that isn't there also, by implication, a liquidity issue for you in case things take a turn for the negative? You're still paying dividend this year, so I was just wondering why preservation of cash at the Group level is not relevant given the market conditions now? Thank you.

Markus Rauramo

OK, so on these two questions. On the gas supplies, we follow the situation very closely; how laws, regulations, sanctions are developing, and we are in continuous discussion with Europe and the respective national governments on what are the potential sanction developments and what would be their consequences for the security of supply for Europe. If there are sanctions that that have consequences on our business, which is not the case for the time being, then that will be discussed with the relevant authorities and governments what are the impacts.

On the practical side, how we are helping Europe and our European customers to deal with this issue right now is that, first of all, we make sure that the supplies currently work. Uniper has procured additional LNG cargoes to Europe to its global access to LNG, and we have resumed discussions with the German government to consider a hydrogen-ready LNG terminal for Wilhelmshaven.

The, for the dividend policy, our target is, and remains, to pay a stable, sustainable and over-time increasing dividend. And that should be underpinned by good results produced from our existing and future businesses and their good performance. So, we focus on the performance, we focus on our growth, clean electricity, increasingly clean gas, and flexibility. And as you have seen today, we have also announced the lifetime extension of Loviisa to that extent, to provide this, which will further support both availability, stable capacity, CO2-free power and our earnings power for years to come.

Deepa Venkateswaran

I'm sorry, if I could just ask a follow up on that same question. I mean, I'm not talking about sanctions, but if there's retaliation by Russia and they turn the gas taps off, surely under those circumstances, my worry – and I note that Moody's has changed the outlook to negative, possibly due to the LTC exposure – so, just wondering in that scenario, would you, if you had to invest into Uniper and infuse equity, would you be prepared to do that?



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

Markus Rauramo

The Situation is changing all the time. We are observing all the areas continuously. And like I said, we are in active dialogue with respective governments on security of supply and we will comply with those sanctions. We will deal with the situations and make sure that the security of supply continues to work for Europe and our European customers.

Bernhard Günther

Maybe to briefly add, Deepa. You're probably referring to the Uniper anti-seize [ph 00:44:01] delivered to Germany. So, whenever a situation would arise that there would be a curtailment of volumes which is not caused by sanctions, but by other aspects, it could, of course, either be force majeure because simply pipelines would be destroyed as a consequence of military action, or if it is not, but kind of wilful curtailment by another player beyond our control and influence, then we would assume it affects the whole of the Central European gas supplies and that then there are very clear emergency mechanisms in the various countries, including Germany, that either the TSOs or the Bundesnetz are going to step in and basically balance this out. And this then is a kind of market which will no longer be played along commercial and supply demand balancing by market forces, but just by physical matching of the different needs of demand with different sources of supply. So that's why you see us very cool-blooded on this risk.

Operator

Our next question comes from the line of James Brand of Deutsche Bank. Please go ahead. Your line is open.

James Brand

Hi, good morning, and thank you for the presentation. I've got two questions. One follows on from Deepa's line of questioning, which I think is absolutely key at the moment and what people are really worrying about, and one is a little bit less relevant to current events, but nevertheless something I'm interested in, so I'll ask it anyway.

The first question is, along the lines of the questions that we're just being asked, what people seem to be kind of most worried about is, if there is a shortage of gas, the kind of financial implications on the contracting side and worrying that, you say that force majeure could be an option, but as I understand it, some of the contracts out there have force majeure clauses, some don't, and obviously, there could be under extreme scenarios, very big swings in collateral requirements.

I was just wondering whether you're speaking to governments to make sure that they're aware of this risk and whether you think that – you mentioned in the answer to the last question that there would be a kind of reordering of the gas flows under current market structures, but there might need to be a reordering of contract provisions or capping of prices to avoid significant financial implications along the gas supply chain. Are you talking to governments to make sure that they're aware of those risks?

And then the second question, a bit less relevant, so I apologise. The Loviisa life extension. You mentioned in your release that you're estimating that you're going to spend €1 billion of investment over the lifetime of that plant through to 2050. Am



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

I right in reading that that's going to average out of 30 million of CapEx a year over the next 30 years? I was a little bit surprised that that number wasn't higher. Thank you very much.

Markus Rauramo

On the first question on how aware are EU and the national governments. I think we see from the EU communication and how frequently leaders of the EU countries plus other countries and the respective ministers are meeting. So, my understanding is that the situational awareness is very good, and Europe is focussing on the security of supply and working actively to make sure that Europe has the resilience to deal with the situation. So, understanding that situational awareness also on a detailed level is good and the price peaks that we saw in December already raised the awareness and I think both the governments and the regulators got a good understanding of what the consequences are for the market, liquidity needs, cash needs, ability to serve the contracts. So, awareness there is good.

Indeed, we have invested in the latest year over €300 million in Loviisa and €1 billion is the CapEx that would then be spent over the lifetime of the lifetime extension of the Loviisa plan.

James Brand

Thank you. That's reassuring in terms of your first answer and thank you for the second answer as well.

Operator

Our next question comes from the line of Ajay Patel at Goldman Sachs. Please go ahead. Your line is open.

Ajay Patel

Good morning, and thanks for the presentation. I think one question is just a clarification and then I have a question following up. So, I think you just said that in a case of an emergency situation where supplies weren't to come through that there are emergency measures in place, the TSA would step in. I guess my question is, if we would take the costs of all of that— If you could give me a little bit of clarity there, I'm not too familiar with this emergency measure. So, any detail there would be really helpful.

And then just my other question is just on Nord Stream, how much interest income did it bring in the financial arrangement and what cash flows for Fortum specifically were you getting from Russia, maybe over the last few years to give us a sense of what cash was coming to the overall Group or was it all being reinvested into Russia? Just wanted to just get a sense of that. Thank you very much.



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

Markus Rauramo

I can start and I'll let Bernard continue on the emergency measure part. On the interest income and cash flow from Russia, so indeed, Uniper has been booking the accrued interest from its lending and financing arrangement to Nord Stream 2. But that has been accrued interest, and that's visible on that side. And then the cash flow from Russia. So, both Fortum and Uniper, and previously Eon, have been taking cash dividends from Russia. So, we invested into the thermal CSA capacities and then once the capacities were invested and finalised, then we have been taking some hundreds of millions per year from Russia in the form of dividends, depending on the year. But overall, still coming back to the total Russia exposure and also positioning Nord Stream 2's relevance in that. The total book value of the net assets for Fortum, for Uniper and the Nord Stream 2 lending, the net asset value is about €5.5 billion, comparable operating profit around €500 million, which is about 20% of our comparable operating profit on a Group level in 2021.

Bernhard Günther

To the first question, I think I said that it could be the TSO who steps in, it could also be the Bundesnetzagentur under other circumstances. So, there is now currently a myriad of scenarios on how exactly, if curtailments come, how they are caused, and what effects they would have. And this is then past dependent on what the reaction would be. And since this has so far never been tested in practise, I think it would then remain to be seen how exactly – let's call it – the financial fallout from this resolution of this physical supply challenge would look like. But as Markus said, we are in good shape for that and there are open lines to the relevant players, also on the political and regulatory side.

Ajay Patel

Thank you very much. Was there a specific number on the Nord Stream interest that you were booking that you could give us?

Markus Rauramo

Ingela and the IR team can come back to that issue precisely for you, if that's OK.

Ajay Patel

Fantastic. Thank you very much for the answers.

Operator

Our next question comes from the line of Pasi Väisänen of Nordea. Please go ahead. Your line is open.



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

Pasi Väisänen

This is Pasi Väisänen from Nordea. I'm so sorry to repeat this topic already highlighted, but do you have a risk, or do you not have a risk related to gas deliveries from Russia to Central Europe regarding your kind of contracts already made for the gas and power? And maybe secondly, regarding this already used 10 to 12 billion margin requirement, is there any counterparty risk related to this item? So, is there any chance that you may not get all the money back in some particular circumstances? Thanks.

Markus Rauramo

On the gas contract, we disclosed the number 370 terawatt hours of gas that we procure with long-term contracts, and these are not back-to-back contracts, so we don't have a long-term contract to buy and then sell that exact gas, so if there would be disruptions for any of these supplies, then the question would be how can we from our gas portfolio supply all of our customers? So yes, if there's some disruption in any of the LTCs, then that risk exists.

Then what comes to our overall exposure in the total context, we are one of the many importers of gas into Europe. We are not the biggest part of either the Russian gas flows into Europe. So, if the gas flow from Russia would stop, then it would be a Europe-wide problem and a systemic problem for Europe. And that's why we come back to that, the point about European governments and regulators being very much on top of the security of supply issue. And to my understanding, they are very aware of that.

Indeed, it is so that that there is counterparty exposure on the margining, so when cash is with the counterparty, then we have the counterparty cash credit risk, and we follow the quality of these counterparties very closely. What comes to the margining? Overall, we have moved our trades away from margining requiring counterparties, so the pressure now with the recent gas price movements is much less on us than it was around the turn of the year.

Pasi Väisänen

Yet that's understood. But would it actually make sense that you are actually now lowering the trading volumes just to get the kind of risk levels down in the future? So, should we expect lower volumes and also lower probably [? 00:56:08] underlying earnings coming from the trading in the future? Thanks.

Bernhard Günther

Maybe it's important to know it's not trading volume, it's hedging volumes. And yes, of course, we have reduced significantly since the commodity price volatility ramped up in the second half of Q3 last year, our hedging volumes. Which does not say that the business is gone. It's just that the long-term hedging which was prevalent in this business model is now not done in the same way as before. We have seen these steep increases in volatility and price levels.



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

Markus Rauramo

We are continuously evaluating the capital needs for our different businesses, and that happens in the normal course of business, which obviously has intensified now for certain businesses, in the short run. But maybe lifting up a little bit and looking at the total picture. So, what arises from actually all of the questions that have been asked here is the need for the energy transition, is the need for the security of supply, need for flexibility and clean power, increasing the clean gas. And these are all things that we are supplying. The weight of the Russian business for us in our operating profit last year was 20%. We are advancing on making investments into clean power. We are advancing on making investments into increasing the clean gas and flexibility. And just today, and in the recent days and weeks and months, we have been making announcements in that direction. So, we feel that our strategy remains valid and even more needed now than it was before, and our competencies are spot on with the needs that the society and our customers have.

Pasi Väisänen

Great, thanks. That was all from my side. I hear you.

Operator

Our next question comes from the line of Tatiana Krupp of Handelsblatt. Please go ahead. Your line is open.

Tatiana Krupp

Good morning. Thanks, first of all, for your statements on Russia, which were quite clear, and I would have a question on some more clarification on the topic of Nord Stream 2, because in the last days we heard from Shell as well as Wintershall that they want to amortise their investments on Nord Stream 2. So, could you say something about whether Uniper was planning to do the same?

Bernhard Günther

I think you're referring to the announcements like Wintershall that they would impair their book values on Nord Stream 2. This is clearly nothing for the closed accounts of 2021. We will clearly reconsider this for the Q1 numbers, i.e. after the 31st of March. We will take a close look at that what the current situation means, and we all know the rumours going back and forth currently on Nord Stream 2.

Tatiana Krupp

All right, but you are not planning to make any statement on that soon, like the other investors did.



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

Bernhard Günther

Not at this point in time.

Tatiana Krupp

All right, thank you.

Markus Rauramo

On this account, like any other parts of our business, we follow very closely what is happening. Like Bernhard said, we hear rumours, and we hear information and various statements from various players and then I think you need to look into that. What is actually happening and what is possible to happen. When there are facts, when there is concrete knowledge of something, we will always assess that information. But so far, we hear certain rumours, and we hear certain facts, and I go back to that, with regards, for example, all of our operations are working normally. If that would change, in any part, then we need to assess the situation and that may or may not reflect into our balance sheet or profit and loss.

Tatiana Krupp

OK, thanks for your clarification.

Operator

Our next question comes from the line of Iiris Theman of Carnegie. Please go ahead. Your line is open.

Iiris Theman

Hi, thanks for taking my question. So, I'm not sure if this was already answered, but does Uniper's all contracts include this force majeure clause? And how long are universal long-term contracts? Thanks.

Markus Rauramo

The long-term contracts can extend for years and even longer, and they are frame agreements that set certain terms and conditions. The idea with the whole long-term contract gas business is that we have visibility into getting gas flows into Europe and to our European customers. That applies for pipeline gas and LNG as well. And then with regards to the contractual terms and conditions, we will see in due course that are there triggering events for some parts of these contracts. We follow that very closely and our focus is on the security of supply to our customers, which we are working on very actively.



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

Iiris Theman

OK. And if I may just continue. Many companies have left Russia. Is this in your plans in the future?

Markus Rauramo

I started with we are devastated and saddened by the attack of Russia to Ukraine, and it will have longer-term implications on the relationships between Europe and Russia. It's clear that business cannot continue as usual and because of this, we have decided to stop making new investment decisions in Russia for the time being, and we will continue to reduce our thermal capacities in Russia, as we have done before. But also, we have the responsibility to supply both to our European customers and our Russian customers the heating, the electricity that we are providing to them. And because of that, also our focus and priority is on our employees and their well-being. We have 7,000 colleagues in Russia, and we look after their safety and their well-being. So, these are in our focuses.

Iiris Theman

Thank you very much.

Operator

Our next question comes from the line of Louis Boujard of Oddo BHF. Please go ahead. Your line is open.

Louis Boujard

Good morning. Thank you very much. Maybe two questions. The first one would be regarding your discussion with the respective regulators, respective countries, we know that depending on the decisions that might be taken at European level, it might have dramatic impact, notably into the bill of the final customer. So, my first question would be, have you actually started any discussions regarding eventual clawback provision on outright production assets? Or is it something that is absolutely not under discussion at this point in time?

My second question, and here we will start to go a little bit into the actual operational activities, would be regarding the hedging and Nordic power market price. It's a bit better than Uniper last week. But anyway, when we look at the forward price, we have the feeling that it might have been much better than that. So, could you please let us know what might have impacted you, or refrain you from being better positioned into your hedging positions for the Nordic price for 2023? Thank you very much.

Markus Rauramo

Which brings us to the discussion with the EU, the respective countries and governments, there is a continuous discussion, whether it's the EU, UK, US on how to react to the situation and the governments are then in discussion with companies,



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

how will that impact companies, how will that impact our societies and economies. And that's what the governments are then balancing, advancing their targets, but understanding also what are the implications then for the businesses and the citizens.

With regards to hedging, our target with the hedging is to provide stability and predictability, visibility into our cash flow and earnings. Sometimes when we hedge prices, after that they go down, sometimes they go up. And as we can see from the last two years, the hedging has had either positive or negative impact compared to whether we would have been not hedging. And we've got enormous stability compared to the price volatility and we see high value in that predictability. That continues to underpin our hedging strategy.

Louis Boujard

I'm sorry, but if I can follow up on the last one, I understand that indeed it gives visibility. My question was more, if we look at the forward, notably Nordics, that you provide, we have the feeling that it could have been a bit better. So maybe what happened in the Q4 that did not enable you to improve a little bit more your hedging positions?

Markus Rauramo

We hedge on a continuous basis, and we take operative decisions in our trading and optimisation team, both in Uniper and in Fortum. Eventually, over time, the hedging levels will also reflect the forward prices so there can be variation between quarters, but there's nothing special as such happening there, except that obviously you can see the big difference between the Fortum and Uniper hedged prices and that we have opened up – Bernhard referred to that – different price areas and also the proxy hedging impact on Uniper. And even there, the target has been to provide the predictability and visibility into the cash flow. So, this truly underpins all the hedging activities.

Louis Boujard

OK, thank you very much.

Operator

Our next question comes from the line of Samu Wilhelmsson of Nordea. Please go ahead. Your line is open.

Samu Wilhelmsson

Thank you. From Nordea Credit Research. I would ask that, as you stated, already, your leverage is well below your target, and you are well positioned in the turbulent market. But could you elaborate more on your financial flexibility at the moment and how it will revert? Will you use the headroom and leverage more to prepare and navigate in the turbulent market with minimal deterioration in your financial position? Or are you planning to utilise it in the more investments in the non-Russian



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

operations as referring your hold of new investments into Russia, or a possible increase in your ownership in Uniper further?

Markus Rauramo

Indeed, I think we're going into this sad and very turbulent situation from a position of strength. We can see that our strategy with regards to clean power, increasing the clean gas, and flexibility does make sense and it has yielded good results, the best ever results on a Fortum Group level. Also, the strategic choices we have made with regards to divestments and the portfolio rotation are resulting in a balance sheet that's well within our leverage targets.

The situation right now is changing [ph 01:08:40] very quickly. It does not change our fundamental beliefs in our strategy. We think our strategy is more valid than ever. And as you saw today, even in the middle of this turbulence, we are making decisions to invest into this future, providing, for example, clean, reliable energy to our customers.

But obviously, we will be careful in this kind of a situation in how much we are then stretching our financial capacity at the moment. So, we are, carefully observing the situation on a continuous basis and seeing where that develops. But what I can still underline is that to me, it's quite clear day after day that what we provide is in high demand, which will also reflect in those businesses results over time that provide the clean power, that provide the flexibility, that provide the predictability.

Samu Wilhelmsson

All right. Thank you.

Operator

Our next question comes from the line of Piotr Dzieciowski of Citi. Please go ahead. Your line is open.

Piotr Dzieciowski

Morning, everybody. I have two questions, please. So, the first one would be on the Wilhelmshaven LNG terminal. If you had the decision today, let's say, to Russia, how much would it cost to build it? So, what's the CapEx requirement and what's the earliest possible time for you to deliver it? So, if you can kind of comment on this possible project. And on the second question I have regarding the coal plant in Germany, where you went to the auction and shut down some of the assets. I wanted to understand. So, my understanding is these assets went to the TSOs, so they were not commissioned. Or how much of the recently decommissioned coal assets eventually do you think could come back to the market if needed? Are we talking about the 4 GW that went offline last year and the 2 GW? Can this all be reversed? And are there any other backup plants that could maybe stand up when needed?



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

Markus Rauramo

With regards to Wilhelmshaven, you know that Uniper had earlier similar plants and had the open season, which didn't result actually in an LNG terminal to proceed. What role Uniper exactly would have in that project would be open as well. So, in these kinds of cases, we could be one of the sponsors; the roles are not defined at this point in time. And with regards to the CapEx of such a terminal, we talk about hundreds of millions of euros. What would be the company's financial commitment to that? That would remain to be seen. So, this is early stages without details at this point in time.

Then, with regards to coal plants, it is exactly indeed so that Germany has gone ahead with its coal exit plan, arranged the tenders, and companies have tendered, and some have won. We have won an award to close down four plants so far. And on some of these cases, the system operator then has defined that these plants, or a plant, shall remain in reserve to be called if there is a need for the system, if these plants are deemed system critical.

I would imagine that this is one of the questions that the authorities and regulators have to assess on an ongoing basis in this situation that what reserve capacities are there truly, technically available and how can they be maintained in the system and compensated for to really, truly keep them available for various purposes. I would assume that this is truly an ongoing continuous consideration for the authorities and regulators.

Piotr Dzieciowski

OK, thank you very much.

Operator

Our next question comes from the line of Artem Beletski of SEB. Please go ahead. Your line is open.

Artem Beletski

Hi, and thank you. So, I still have two questions for you. So first of all, just coming back to gas discussion topic and maybe what comes to the gas contracts what Uniper has towards European customers. Could you provide some colour what type of structure are those ones? Are we talking about basically one-year, two-year contracts, in general, what they have on this side?

And the second question is really related to nuclear and just thinking about shutdowns what we have seen, for example, in Sweden over recent years. If all of a sudden, we are clearly concerned about energy supplies and so on, is it technically possible to basically restart those reactors? And what type of work needs to be done on that side?

Markus Rauramo

OK. I can start with the shutdown. After this shutdown decisions of various reactors, then very detailed decommissioning plan exists and process how to how to then take out these plants. So they are, of course, in different stages, but I would



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

say it's very difficult then, to any more plant that is already going through the decommissioning to then get that back to the market.

What I do recognise is that, against the background of the huge need to do the energy transition there is a renewed interest in nuclear because it does provide reliable CO2-free power. There's a lot of discussion about small modular reactors that could be produced in series. And the question then will become that how will, and how could, such stable and permanent capacity get compensation from the market? What we have seen is that we have increased price volatility that will continue when we get more intermittent renewables into the system.

So, eventually, we will have a discussion in Europe also about how should the market work, what is the market design? How does that that look like? But we are one of the largest nuclear operators in Europe, and we just took a decision to extend the lifetime of our very efficient, one of the best plants, if not the best of its type to extend its lifetime.

With regards to the gas contracts, do you, Bernhard, want to comment on that one?

Bernhard Günther

Well, there's a pretty broad variety. Typically, the contracts that we supply our customers with are of a shorter duration than the long-term contracts would be. But over the recent one or two years, we've seen a significant surge in demand for longer-term contracts again, because obviously customers do want some protection against wild swings in commodity prices, or their own visibility and ability to plan their businesses. So, this is going up, at least in terms of demand. It was a market which was pretty dead a couple of years ago, at least in continental Europe.

Artem Beletski

OK. This is very clear. Thank you.

Operator

As we have reached our allotted time now, that will be the last question, so I will hand back to our speakers for the closing comments?

Ingela Ulfves

Thank you so much, operator. We will still take two questions before we conclude. So, the first one comes from Sam Arie, UBS: Thank you, Markus and the Fortum team. I would like to acknowledge the extraordinary stress this currently places on your business and to thank you again for your leadership and for the many helpful comments today. My question is about the EU carbon price. You have always been a supporter of higher carbon prices, but in the current market, higher carbon prices are surely supporting demand for gas across Europe. Do you see a risk that the EU authorities will intervene somehow to bring the carbon price down in order to allow the maximum coal to run and reduce gas demand from the power sector? If you can share any view on how that might happen and when.



Fortum Q4 2021 Interim report

{EV00131546} - {01:21:04}

The other question comes from Pekka [? 01:18:15]. In Russia, Fortum has a JV with Gazprombank in renewable energy and you are minority owner in Gazprom's [? 01:18:25]. Do you want to continue cooperation with this Russian state-owned companies or do you plan to sell or give up these stakes?

Markus Rauramo

OK. I'll start with [? 01:18:38] questions. We follow the laws, regulations and sanctions very closely and we will comply, and we do comply with those sanctions. Clearly, the situation at hand has long-term impact and business as usual is not possible. In the context of our business in Russia, we will not take any new investment decisions for the time being and we will continue to reduce our thermal exposure of our business.

With regards to the question about the carbon price and Europe, we do have a terrible crisis at hand in Ukraine. But what was also highlighted actually during this week was the IPCC report highlighting that we have another issue at hand, which is very serious and that is climate change. So, I do think that we have to make sure that the energy transition happens to low-emitting energy, to clean CO2-free energy, to increasingly clean gases. And that requires flexibility and sector integration. Gas is needed also going forward. All sectors cannot be electrified, but we can increase the use of electricity, convert that into clean gases and over time, switch then to a completely CO2-free system. And that is what Fortum is committed to also, and Europe is committed to, and the Paris Agreement signatories are all committed to.

So, we will continue, and I believe that Europe will continue to work into this direction.

Ingela Ulfves

Thank you so much. Time is unfortunately up now, so we will have to conclude the event here. The IR team will come back to the questions asked in the chat that were not answered now, and Fortum's news desk will get back to the journalist questions that also were posted in the chat. So, on behalf of Fortum, thank you everyone for your participation here today and have a nice rest of the day.

Markus Rauramo

Thank you, everybody. Have a good day.