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Fortum Financial Statements and new strategy webcast 2 March 2023

### Hosts:

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**Ingela Ulfves:** Good morning, everyone – both here at the headquarters in Espoo, and those of you who are watching online. A warm welcome to Fortum's joint webcast and news conference for the investor community and media on our full-year results for 2022 and our new strategy. My name is **Ingela Ulfves** and I'm Head of Investor Relations at Fortum. This event is being recorded and a replay will be provided later on, on our website. With me here in the auditorium are our CEO, **Markus Rauramo**, and CFO, **Bernhard Günther**, who will present to you today. Also, the IR team is present here with me today and our new Fortum leadership team.

The agenda is the following: Markus and Bernhard will first present the result figures and the Group's performance. And thereafter, Markus will update you on our strategy. Only after both presentations, we will open up for questions for investors, analysts and media, international media, both over the teleconference and audience here in Espoo. So there will not be any separate Q&A session after the result presentation. After the Q&A, we thank the international audience and then we switch to Finnish and we'll take questions from the Finnish media. We have reserved a total of 2.5 hours for this event, with approximately two hours for the presentations and for the international audience. And then the remaining 30 minutes is for the Finnish media.

As we highly value your opinions, we would very much like to have your instant comments and feedback on our new strategy. Therefore, we will conduct a short poll for our own use. This will be done both here in the audience and also with those of you online. So here in the auditorium, each of you find a small note with a QR code for this purpose. For everyone online, during the Q&A session, you will see three pop-up windows on your screen. So please be active and vote. Also, a kind reminder to our guests here that you switch your mobiles on silent. As a last comment for the guests here, I am happy to invite you to a buffet lunch outside of this venue after the international call. So with this, I will now hand over to Markus to start.

**Markus Rauramo:** Thank you very much, Ingela. A warm welcome to our investor call also from my side. Today marks an important milestone in Fortum's history. We have returned home and opened a new chapter as a prominent Nordic power generator and one of the cleanest energy companies in Europe. In 2022, we managed through unprecedented turbulences and can now close our books for 22 with a robust set of financials. I will present our continuing operations that exclude Uniper. But to give you an understanding of the underlying earnings capability and performance of the renewed group, I will also show the headline KPIs, excluding Russia. Bernhard will walk you through the numbers in all details, as usual. In the second section, I will introduce our new strategy and give insights into how we

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will implement it and what the respective financial and environmental targets are. I will also present our new operating model and our leadership team. Finally, I will close with the summary.

Now, let's start with the financial statements for fiscal year 2022. Russia's attack on Ukraine and the decision of the Russian government to use energy as a weapon, is an unprecedented challenge for modern Europe. For us as a group, the geopolitical crisis had two fundamental consequences. On one hand, it was a huge blow. The outcome is known. We had to acknowledge that the implications of the Russian invasion materially hit Fortum Group with substantial value deterioration of our Russian exposed businesses, Uniper and Fortum Russia. We sold Uniper to the German State for a fraction of our initial investment, recorded losses of several billions of euros. At the same time, we recognize that the outcome could have been much worse. And we did receive our shareholder loan and our guarantees back. The value of our Russian assets has taken a toll in a series of impairments as we recorded additional pre-tax impairments in the fourth quarter of approximately € 990 million related to our Russian segment. This adds up to €1.7 billion in total for the year.

Following Russia's attack war on Ukraine, we decided to pursue a controlled exit from the Russian market with potential divestments of our Russian operations as the preferred path. Completing the exit is likely to take further time, and there is still significant uncertainties, including regulatory approvals related to the ongoing divestment process. On the other hand, the fundamental relevance of our operations in the Nordics has increased significantly. I see two areas for our unique relevance. First, our responsibility for security of supply. Our customers and the society value this more than ever. In this respect, our priority in the short-term is to maintain high availability, efficiency and safety of our Nordic fleet. Secondly, our responsibility for decarbonization and our opportunity to support demand growth in the Nordics. The current energy crisis is a supply crisis of fossil fuels. It has made obvious that Europe has to reduce its dependencies and to increase its efforts in decarbonization.

Fortum has the right skills and capabilities to deliver zero carbon power generation at scale and can attract new power demand to the Nordics, something only one or two players in the Nordic arena can match. Consequently, if we want to live up to our responsibilities, security of supply and decarbonization need to be in the center of our thinking. And it will pay off. Fortum is already now back on stable footing. Despite the substantial setback that we had to cope with in 2022, we managed to deliver a robust set of figures in our continued operations that underline the solid earnings power of our CO<sub>2</sub>-free Nordic hydro and nuclear fleet. We have regained a healthy financial position in this still volatile market environment, and we have also been able to reduce our gross debt significantly. One of the key drivers for this is the Nordic power price. Although the Nordic power system is largely decarbonized, it is not immune to skyrocketing commodity prices. Continental gas fired generation is an anchor also for the Nordic power price. Increased power prices are now prevalent, not only in the spot markets, but also in forward prices across the curve.

Uncertainty about gas supply availability and the new geopolitical conditions and the need to refill gas storages in preparation for winter, drove European gas prices to levels that we

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have never seen before in the spring and summer of 2022. But prices started to ease with storage injections during the summer, and supply was stabilized with LNG imports. Lower gas prices in Q4 and consequently lower power prices were supported by a mild autumn and warm beginning of the winter. With gas storages almost untapped, the market is much calmer now about the rest of the winter. This is reflected in lower gas forward prices. The Nordic system price, both spot and futures, have declined strongly in lockstep with the continental European and UK power prices. The 2024 product is currently trading at around €74 per megawatt hour, 23 products are currently trading between 60 and €90 per megawatt hour for the rest of the year. Although we are talking about much lower levels than in the autumn, forward prices are still clearly elevated compared to the historical price range.

The elevated prices shown on the previous slide are effectively the outcome of the supply and demand situation and challenges with gas supplies, but there has not been any major power blackouts. Despite the exceptional situation with historically high prices, the physical power market is and has been functioning. The cheapest form of power generation, which will fulfill the demand at the time, forms the power price. It is also good to remember that the well-functioning physical power market is the base for the derivatives market. To tackle the impacts of the energy crisis on societies, EU countries have agreed on a set of emergency actions. While crisis measures that help customers deal with soaring energy prices have undoubtedly been necessary, it is crucial to keep them temporary and implement them in a manner that does not lead to exclusion of capacity from the market and thereby even rationing of electricity.

We should now shift the focus to long-term market development issues and ensure that we will have an electricity market framework that enables investments in clean electricity, needed for the decarbonization of our societies. Therefore, we follow the process on the EU electricity market design with highest attention. Now over to the operational performance. What you see here are the comparable headline KPIs from Fortum Group's continuing operations. These exclude Uniper, which we deconsolidated in the third quarter following the agreement with the German State. The 2021 figures are restated accordingly. In addition, we show the underlying earnings excluding Russia, across the earnings metrics. This is of importance for two reasons. First, we are clearly committed to exit the Russian market. To get the clear picture of the underlying performance of Fortum's core activities, one has to exclude the Russian operations to understand the underlying earnings power going forward. Second, we have no access to earnings or funds from Russia, especially when it comes to the funds available for dividend distribution, the metrics have to be adjusted with the Russian impact.

The last quarter of 2022 was, again, another extraordinarily volatile quarter characterized by extraordinary market fundamentals. Overall, we had a very strong group performance across the headline KPIs in both the fourth quarter and the full year. Starting from the balance sheet and most importantly, our leverage, defined as financial net debt to comparable EBITDA, it was at 0.4 times for the group's continuing operations and 0.6 times excluding the impact from Russian operations. It again improved versus the 0.8 times that we showed you last time. There are two reasons for this. First, the healthy operating cash flow in the fourth

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quarter. And secondly, the approximately €500 million sales proceeds we received from the Uniper transaction. The very low leverage provides a good starting point to continue to develop Fortum going forward. With regards to the earnings, the generation segment was operationally very strong in the fourth quarter, thanks to high power prices in the Nordics and successful physical optimization. Comparable EPS for continuing operations was €1.74 per share, and when excluding Russia, it was €1.21 per share, significantly up compared to 2021 restated figures. So, these are very solid results considering that they exclude Uniper and respective losses of almost €6 billion from the Uniper divestment, and recorded impairments of €1.7 billion in the Russia segment. Neither reflected, obviously, in the comparable EPS.

Considering all of this, Fortum's Board of Directors is proposing to the 2023 Annual General Meeting, a dividend of \$0.91 per share for the year 2022. The proposed dividend of \$0.91 per share is based on the comparable EPS for continuing operations, adjusted with the Russian impact as we do not have access to the Russian earnings and cash flow. The proposed dividend translates into a payout ratio of 75 percent. I will come back to the dividend policy in the strategy section. Going forward, we will calibrate the balance between dividend, growth CapEx, and balance sheet strength, which has the highest priority for us. I want to highlight that even after the tough year with big losses and impairments, the Board is proposing a cash dividend. There have been external views that we can't pay or shouldn't pay a dividend at all. In this context, It is also good to note that Fortum Group's reported EPS, including discontinued operations, was negative €2.72 per share. The book loss on our Uniper participation, which is driving this number, is just the accounting reflection of the share price decline our shareholders have already suffered in 2022. Therefore, we think it's right to focus on the comparable EPS for continuing operations adjusted for the Russia impact. It is true that the dividend proposal is a rebase from last year's dividend of €1.14 per share. However, it still reflects our good earnings level and stabilized financial position in Fortum's continued operations.

To sum it up, I am satisfied with the strong group performance in a volatile commodity market during a very tough year. Our organization has given its absolute best in serving our customers, securing availability of power plants, and maintaining our financial flexibility. So with this, I conclude my part in this first section and hand over to you, Bernhard.

**Bernhard Günther:** Thank you, Markus. And a warm welcome also from my side. Today I will start, as usual, with an overview of our continuing operations, key comparable numbers, excluding Uniper. I will also give you some insights on underlying earnings excluding our Russian operations. In addition, I will briefly dive into the segmental overview and show you how this translates into our reported figures. And finally, I will close the financial statements section with an outlook for 2023.

What you see here is the key overview, summarizing our key comparable indicators of the consolidated Fortum Group's continuing operations. As said, all figures excluding Uniper as it was deconsolidated and classified as discontinued operation in the third quarter already. To have a fair reflection of the group's underlying earnings, it is sensible to exclude the Russian operations as our divestment process is still ongoing and the business operations in practice

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are disconnected from our Group operations. Completing the exit is likely to take additional time, and there are still significant uncertainties, including regulatory approvals. That's why we show you the figures, excluding Russia, in a separate column for the fourth quarter and for the full year. Let me comment on some of these KPIs excluding the impact from the Russian operations.

Comparable operating profit was up more than 50 percent on the quarter and up 38 percent for the full year. This is mainly driven by the generation segment due to high market prices which increased the achieved power price. Also, physical optimization enabled by the power price volatility, contributed to the good result. Earnings per share, excluding Russia for the full year, consequently increased by 26 percent in 2022. The increase is not as pronounced as the increase in comparable operating profit as we had higher financing costs. Comparable EPS for the full year, excluding Russia, was €1.21, and as Markus said, this is the base for the dividend proposal. And finally, cash flow. In 2022, net cash from operating activities increased by €995 million to 2.1 billion, mainly due to the improved comparable EBITDA as well as the change in working capital and lower paid income taxes compared to the same period in 2021. Now over to the segment overview.

The reconciliation on segment level confirms what I said before. The year-over-year delta is mainly attributable to the generation segment, which obviously is and will continue to be, the largest segment in Fortum stand-alone. Let me run you briefly through the segments on full-year reconciliation.

**Generation.** Comparable operating profit was up 477 million, despite lower power generation in the Nordics, especially lower hydropower volumes. The lower volumes were caused by lower inflows that left the hydro reservoir levels below average. Reservoir levels were clearly below average levels during most of the year, however, improved towards the end of the year, especially in the fourth quarter. For 2022 hydro volumes are four terawatt hours below the level compared to the year before. The operational performance and production volumes for nuclear generation were solid and at the same good level as in 2021. The achieved power price in the generation segment increased by €17.1 per megawatt hour, that's up 40 percent following very successful physical optimization and higher spot prices. This is a very strong performance considering that we had fairly high hedge levels and were negatively impacted by the significant price differences in Sweden between the high system price and the lower SE2 area spot price in the Sundsvall price area with low liquidity.

**City Solutions.** Comparable operating profit was down by €107 million for two reasons. First, operational. Clearly, higher fossil fuel pellet and CO2 emission allowance prices, as well as lower metal prices that could not be offset by higher power and district heating sales prices. Second effect is structural. We divested rather large parts of our City Solutions business. Our share in Fortum Oslo Varme, Baltic district heating business, and our solar plants in India.

**To Consumer Solutions.** The comparable operating profit went up by €45 million, mainly due to higher electricity and gas margins, as well as positive one-offs from gas storage sales. The positive effect was partly offset by higher costs and lower sales of value-added services. Also

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good to keep in mind that one reason for the big delta is that in the fourth quarter of 2021, the result was clearly negative due to higher electricity purchase cost and negative margins.

And finally, one word to the other operation segments not visible here, but worth mentioning. We divested our e-mobility business Plugsurfing and our remaining ownership in Recharge and recorded tax exempt capital gains of a total of €138 million in other operations' third quarter 22 results. As these were recorded as items affecting comparability, they are not visible here. Now over to the P and L.

This is a reconciliation of the full-year comparable operating profit for our continuing operations at the top all the way down to the reported net profit. Please note that as we have not discontinued the Russian operations, they are now included here. There are a series of elements to highlight. As you are aware, during 2022, we recorded a total of €1.7 billion of impairments in our Russian segments in the first and in the fourth quarter. The impairments affected several line items in the income statement, depending on the nature of the asset being impaired. Recorded impairment charges are thus reflected as follows for the full year. In the items affecting comparability, we have impairment charges and reversals of €905 million, impairments recorded in Q4 were €535 million, including the effect from the change in the ruble rate. In addition to this, we have impairment charges in the share of profit and loss of associates and joint ventures, mainly from the TGC-1 ownership. Capital gains include the divestment of our stake in Fortum Oslo Varme that we have closed in Q2 and the divestment of Recharge and Plugsurfing.

Then we have the changes in fair value of derivatives from hedging. For the full year, these were €393 million negative. Last quarter, we had a similar size positive effect. If the high market volatility continues like now, it will also in future mean substantial volatility to this specific line item. However, it is good to note that this is only a fraction of the effect that we saw when still consolidating Uniper. Finance costs net of minus €193 million relates mainly to the net interest expenses and a series of effects from the Russian operations, like expected credit losses, write-down of shares and foreign exchange gains from ruble receivables and the closing of ruble hedges. As you can see, we also have a positive effect of €556 million from tax loss carry forwards related to impacts mainly caused by the Uniper divestment. Consequently, the 2022 reported net profit for continuing operations was at €1 billion. Now over to our financial position.

On this slide, I have, in essence, three messages for you. First, our leverage situation is very good. Leverage decreased substantially following the closing of the Uniper deal in December 22. We received, in total, €4.5 billion, which comprise of the payback of the €4 billion shareholder loan and the approximately 500 million consideration for the Uniper shares. Second, the operating cash flow of €2.1 billion was very strong and also supported by our efforts to bring down our gross debt. We used most of these funds to repay some debt already at the end of 2022, which explains why our gross debt number at year end is at €7.5 billion, and this is €5.4 billion lower compared to the previous reported 12.9 billion. And third, we have quite some financial flexibility on our debt maturities as we have options to extend approximately €1.6 billion of our loans with one year into 2024. Therefore, although

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at first glance our contractual maturities profile looks very much front-loaded, the financial position is rather good. Also note that we currently have sufficient liquidity reserves.

Let me briefly run you through the reconciliation for the development of our financial net debt, visible in the upper graph on this slide. The starting point with the opening balance sheet at the beginning of 2022 includes €2.5 billion of Uniper debt, and was the draw down from the €4 billion shareholder loan. In addition, the starting point includes €2 billion of deconsolidation effects, mainly Uniper liquid funds and margin receivables. During the year, Uniper drew down a further €1.5 billion on the shareholder loans to the full amount repaid in Q4. The net effect is shown in the change in receivables you see. This together with divestment effects, Fortum's dividend payment for 2021, and the consideration for the Uniper shares, brings our financial net debt to a level of slightly below €1.1 billion at year-end 2022. As interest rates have gone up and the interest rate for our debt portfolio is consequently up compared to our last quarter, this is also affected by the €350 million that we have drawn on the Solidium loan at substantially higher borrowing cost. The plan is to repay the drawn €350 million and at the same time cancel the entire bridge financing loan of 2.35 billion by the end of March 2023.

The credit rating still continues to be a key objective to us. Our triple B rating with a negative outlook is still unchanged. In connection with the Uniper exit, our rating agencies communicated that they expect progress on the Russia exit and clarity on Fortum's new strategy, on which we, today, have provided an update, and Markus will come to this in a minute. We are in dialogue with the rating agencies and await decisions from them in the near future. So with this, now coming to the final outlook section.

The outlook section comprises, in essence, three elements, guidance on hedging, CapEx for 22, and tax rates. Over the years, Fortum successful hedging of the outright generation position has created predictability and visibility. The hedge prices for the generation segment increased for this year by €9 per megawatt hour to €58, and the hedge ratio was 75 percent at the end of 2022. Hedge prices for 2024 increased by €4 per megawatt hour to €42, and the respective hedge ratio was 45 percent at the end of 22. Our CapEx guidance for 2023 for continuing operations, we expect to spend in total €700 million in 2023, including maintenance CapEx, but excluding potential acquisitions. Maintenance CapEx will be approximately €300 million, which continues to be clearly below our depreciation levels.

And finally, to our tax guidance. The windfall tax in Finland is an element that needs to be considered. Lately, the Finnish Ministry of Finance has lowered their estimate of the windfall tax being collected from Finnish industries from a range of 0.5 to €1.3 billion to now 0.3 to €0.4 billion. The final outcome will naturally depend on the power prices and result developments of the affected companies. Taking into consideration this temporary windfall, the comparable effective income tax rate, excluding items affecting comparability for the Group, is estimated to be in the range of 21 to 24 percent. Excluding the windfall tax, the comparable income tax rate, again, without items affecting comparability, is estimated to be in the range of 20 to 22 percent. For 24, the comparable effective income tax rate excluding items affecting comparability, is estimated to be in the range of 19 to 21 percent. With this, I conclude the first section of our presentation and I now hand back, Ingela, to you.

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**Ingela Ulfves:** Thank you, Bernhard, and thank you also, Markus. This actually concludes Bernhard's era as CFO in our result presentations, because next time we will have our new CFO, **Tiina Tuomela**, on stage with the Q1 results.

Okay, let's then move on. As said, this time we will not open for the Q&A at this point, but we will immediately now continue with the strategy and only after that, take your questions. Markus, the floor is yours again.

**Markus Rauramo:** Thank you, Ingela. Last year, the world was turned upside down and fundamentally changed us. We have worked diligently to realign the company to this new reality, and now we are ready to move forward. I will start the strategy section with an overview of the key elements of our strategy. A holistic approach is based on our stakeholders needs and translates into clear strategic priorities. As a next step, I will share our understanding of the operating environment, and how our strategy boils down to clear drivers of value creation. This is embedded in our financial agenda that focuses on profitability and financial strength. Finally, I will present to you how the concrete implementation of our new strategy is reflected in our new operating model and introduce our new leadership team, who are committed to deliver on the new strategy. I will then close with a summary.

So let's start with our strategy at a glance. A new strategy is designed to deliver on our new purpose, to power a world where people, businesses, and nature thrive together. It crystallizes our value proposition to our stakeholders. We have a unique ability to reliably deliver clean energy from trusted sources at scale. And with our power, we help our customers to decarbonize their processes, and societies to reach carbon neutrality in balance with nature. I'm fully convinced that Europe's energy transformation will get further attraction, and that the electrification and decarbonization of industrial processes will accelerate, driven by consumers, by regulation, and also by capital markets. Reliable clean energy at scale will be scarce for long. Therefore, we are convinced that there is substantial inherent value that can be lifted for the benefit of us and our stakeholders.

First, Fortum can contribute with its biggest strengths. We are building on our assets and our strong competence to optimize our highly competitive power generation fleet. We maintain and develop our best-in-class operations to constantly secure top efficiency and flexibility. Second, industries are confronted with huge challenges as they need to decarbonize and answer their customers demand for cleaner products. As a leading provider of clean energy in the Nordics, we at Fortum want to be the partner of choice for our industrial customers. We believe we can help them achieve competitive advantage from bringing clean products to the market. These strategic partnerships will also facilitate our growth in the longer-term. Further, we will explore opportunities in clean hydrogen, and over time also, opportunities in new nuclear. For example, in small modular reactors together with industrial customers. Our growth will happen in the Nordics and our capital allocation will be prudent.

Finally, to secure the successful execution of our strategy, we as Fortum, will develop the way we work and improve our efficiency. We have changed our operating model accordingly. We have to carefully manage the current volatile and uncertain operating



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environment, have to manage and reduce our risks while simultaneously taking advantage of prevailing good power market conditions. And all this will happen in a prudent and reliable manner. We have set ourselves boundaries that foster value creation instead of just adding gigawatts. So how does renewed Fortum post Uniper and post Russia look like?

The renewed Fortum is built on strong earnings power, clean power generation at scale, and specific emissions that are very low. In my introduction, I pointed out that Fortum's operations have unique relevance for the Nordics and that this relevance has increased significantly. Our uniqueness is built on a portfolio delivering up to 45 terawatt hours of CO<sub>2</sub>-free power every year.

The success of the European energy transition as well as further industrialization of the Nordics, will, in essence, depend on three elements. First, a sufficient amount of clean energy. Electrification and industrial decarbonization require significant amounts of clean energy, as well as reliable partners that can deliver it in terawatt hour scale. We have the scale that makes us attractive for our industrial partners. Second, the need of clean energy as reliable base load. This is what the, especially, our nuclear fleet provides. The availability of our nuclear plants is best-in-class. Our fully-owned Loviisa nuclear power plant operates with a load factor of close to 93 percent. Third, flexibility to the system when needed. This is what our flexible hydro fleet offers. We are working hard to extend the flexibility of our CO<sub>2</sub>-free plants, for example, with battery solutions. Last, the common ground on which we stand. We have the right skills and capabilities to deliver. This makes us unique. To sum it up, our competitive portfolio delivers clean and secure power at its best and is well positioned for the future.

What does this future then look like? When it comes to our operating environment, it is clear that we face quite some uncertainty in the short-term, but there is tangible and concrete upside in the mid-term for structural demand growth. In the short-term, the energy sector continues to be impacted by geopolitical tensions, generally weaker economic outlook with higher inflation and higher interest rates, tightening and unclear regulation in combination with volatile commodity markets. Next to the geopolitical situation, the market regulation is the biggest uncertainty in the short-term, but as supply is scarce, any kind of regulatory approach will have to incentivize new and existing capacity if security of supply is high on the agenda. Even though the energy crisis became the defining element of 2022, the energy transition trends demonstrated resilience in Europe. For the first time, the share of wind and solar in the EU power mix was above both coal and gas. The trend is likely to be sustained in the near-term future. In addition, the focus on energy security is here to stay and defines the future of our sector. The megatrend of further electrification will accelerate and is driven by the new industrial age of clean technology. However, the pace of execution depends on energy security. Consequently, electrification offers substantial opportunities for economic growth, especially in the Nordics. Let me now tell you why.

The Nordic market is extremely competitive when it comes to clean and affordable power. Looking at 2024 forwards, the continent is pricing power four times higher than the Nordics. This is not new per se, but the absolute delta is of significant relevance for energy intensive industries. In addition, the energy mix in the Nordics is different compared to the continent,

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where there still is a large share of fossil fuels used for power generation. Therefore, in the mid- to long-term, electricity is expected to continue to gain a significantly higher share of total energy consumption, bringing decades of demand growth for the Nordics. The electricity demand growth will largely be determined by classic drivers, such as macroeconomic development, but also increasingly by decarbonization of energy-intensive industrial, transport, and heating sectors through direct electrification and clean hydrogen. About half of the increase is expected to come from industrial decarbonization projects through hydrogen. This is in line with the series of publicly disclosed projects taking shape in Finland and Sweden that can consume electricity at terawatt hour scale each, supporting these forecasts.

To sum it up, it is obvious that the implementation of our strategy will have to do both. Prepare for the opportunities in the mid-term, but also manage the uncertainty in the short-term. And this is exactly what our strategic priorities are addressing. We manage the uncertainty by doing really well what we do best. We run our existing portfolio efficiently and we prioritize the reliable delivery of our clean power. Crucially, we also step up our climate and environmental targets. At the same time, we will do the right things by driving the decarbonization of industries and pave the way for growth, but as uncertainty still prevails, our growth will be prudent and selective. Our first priority is to deliver reliable, clean energy. We create value with our best-in-class operations. As you know, we have a strong track record of optimizing our portfolio successfully, both in low and high price scenarios. These are our core competencies. We also have the expertise and the ability to further develop our portfolio and to ensure a sustainable level of earnings. This is in the core of our DNA.

Our second priority is to drive the decarbonization for industries. We extract value from growth opportunities in the energy transition. This will not only require expertise, but also investment discipline. We have regained a solid financial position that we will preserve and therefore have to be prudent in our capital allocation and be selective with growth projects. Thus, we want to grow, but not at any price. This is why you should not expect to see any gigawatt build-out projections in the short-term. This is also related to the prevailing uncertainty how the market will develop in the next couple of years. Our third priority is to transform and develop. We will lift value by increasing our efficiency. This is multidimensional and starts with the way we work, how we can recalibrate our cost base, and how we can better manage risks to further improve our competitiveness. In addition to our strategic priorities, we have now also tightened our climate and environmental targets. Sustainability is the foundation for our ambitious purpose to power a world where people, businesses, and nature thrive together. We have a significant CO<sub>2</sub>-free generation fleet that is relevant for the Nordics. We have to lead by example and want to be a leader in sustainability to enable the energy transition, reach carbon neutrality and manage our impact on biodiversity.

Let me give you more details on the elements of value creation on the following several slides. As said, Fortum's biggest strength and a strategic priority is the ability to deliver clean energy to customers and to the Nordic energy system, but this is more than just our bread and butter business. Best-in-class operation is the base for success and is built on our ability

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for substantial physical and financial value creation, as prices and volatility in the Nordics are still on elevated levels. The chart on the right shows that we have managed to have fairly stable and, over time, increasing at average achieved power prices while market prices have been very volatile. Market price moves, of course, feed into our achieved power prices only over time because of hedging, with the consequence that earnings volatility is by far lower than that of the market prices. In this respect, our priority in the short-term is to maintain the high availability, efficiency and safety of our Nordic fleet and to continue to play a key role in the Nordic electricity system.

We invest in productivity and lifetime extension. The Finnish government just granted a new operating license for our Loviisa nuclear power plant until the end of 2050. The extension potential of operations until 2050 offers up to 170 terawatt hours of additional CO<sub>2</sub>-free power, with the capital expenditure of approximately €1 billion over some 25 years. This CapEx is expected to be rather evenly distributed over the years. We also invest in decarbonization and modernization of our operations. To achieve our ambitious carbon neutrality targets, we will continue the decarbonization of heating and cooling in Finland and Poland. This is in essence what we have done before with other district heating assets as it also lifts hidden value. Having said this, now I move over to our selective growth ambitions.

Decarbonization of heavy industries is a key hurdle on the way to carbon neutral and more sustainable societies. The development of technologies to replace fossil fuels in the production processes is accelerating. With our strong position based on our asset portfolio, we will work to find solutions for industrial customers to lower their carbon footprint. The aim is to develop and build new clean power in partnerships with strategic customers and actively develop a project pipeline to enable future growth. Further, the aim is to explore business opportunities in nuclear. The commercial, social and regulatory feasibility of small modular reactors is an avenue we are currently exploring in co-operation with customers and partners. Our nuclear feasibility study will be ready by the end of 2024. In order to drive the development of clean hydrogen in the Nordics, Fortum will explore projects together with industrial customers. At the same time, we are conscious about our financial restraints. As interest rates and inflation are still on the way up, we will have to be very selective and disciplined with our capital allocation.

As you can see on the right, we allocate a growth CapEx budget of up to €1.5 billion in total until the end of 2025 for our growth ambitions, excluding acquisitions. As uncertainty in the operating environment is still high, we will carefully assess any investment projects to also ensure sufficient profitability. Half of the growth CapEx until 2025 is already committed to projects like the Pjelaž wind park or the Loviisa nuclear power plant lifetime extension. The uncommitted part is available for decarbonization projects, hydro and nuclear efficiency improvements, renewables projects, or hydrogen projects. In new-build projects, it makes sense to have a partner, especially a customer on board, who commits to long-term off take agreements in PPAs and/or long-term contracts. Merchant renewable projects are not our preference. In addition, we have a financial framework that ensures selective growth. I will come back later to this. When it comes to the agreed right of first offer for Uniper nuclear and hydro assets, our appetite would very much depend on the valuation, if this makes

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sense to us. The agreement goes until 2026 and we have no visibility, what is Uniper's or their new owners, the German State's position on this.

To summarize, we are looking into growth projects in the Nordics that offer attractive returns with an investment budget of up to €1.5 billion, which is not insignificant for a company our size or the Nordic context. Consequently, we are not committing to build out targets as such as the risk return profile is of high importance to us.

Having touched our best-in-class portfolio ambitions and our selective growth plans, let me now come to the supporting enablers. To succeed in our business priorities and to navigate the uncertainty in our current operating environment, we need to continue to transform and develop, and with this, ensure value creation. During the past years, our focus was on Uniper. Now we need to ensure that the foundation is fit for our strategy execution. This is not only about the way we work as an organization, it is also about efficiency improvement. We have to calibrate and recalibrate our cost base, improve our competitiveness and create a setup that is rebased to suit the renewed group. In addition, we have to manage and reduce our business risk.

With the divestment of most of our district heating business and the exit from Uniper and Russia, the group will be relatively even more exposed to Nordic power prices. Today's market price environment is still fairly high and with average prices in the Nordics above historic levels, but this situation can change. Therefore, we are working on ways to extend our hedging beyond power exchanges and short-term bilateral deals. An obvious alternative longer-term are long-term off take agreements and PPAs with industrial customers. As another driver for value creation, we see that our climate and environmental targets are a strong foundation for our ambitious purpose. We have to lead by example and want to be a leader in sustainability to enable the energy transition and to do our part in preserving the delicate balance of nature. Therefore, we have set the new and more ambitious environmental targets.

We have tightened our target to reach carbon neutrality by several decades from previous 2050 to 2030. This includes scopes one, two and three. Further, we will exit all coal already by the end of 2027. We will also commit to set emission reduction targets based on the climate science SBTi 1.5 degrees. This commitment assumes a full exit from Russia first. To measure the progress, mid-point targets have also been set for specific emissions at below 20g CO<sub>2</sub> per kilowatt hour for total energy production, and at below 10g CO<sub>2</sub> per kilowatt hour for power generation by 2028. Last but definitely not least, Fortum is committing to an ambitious target of no net loss of biodiversity from direct operations, including not only new but also our existing operations from 2030 onwards for our terrestrial impacts. This currently excludes our aquatic impacts where tools to measure such impacts are yet to be developed. As a major hydro operator, we are, of course, working in collaboration with partners and experts to help develop these tools using science-based methodologies and continue with our local initiatives. Naturally, we also continue with our local initiatives in hydropower production to enhance biodiversity. In addition, we will reduce our terrestrial impacts through our upstream supply chain by 50 percent by the year 2030 compared to the base year, 2021.

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I'm very pleased that we could significantly raise the bar for our climate and environmental ambitions. This target setting places us very well compared to our peers and will guide us on our path in creating sustainable shareholder value. Same applies to our financial targets that we updated on the next slide. As the operating environment has changed fundamentally and as Fortum's earnings profile can be more volatile in the future, we have reviewed our financial targets with the aim for a strong financial foundation that goes hand in hand with financial discipline. The rationale is to manage between balance sheet strength, growth investments, and dividend payout. This is tightly linked to our key objective of maintaining a credit rating of at least triple B flat. Consequently, we updated our leverage guidance, which longer-term gives us more financial flexibility. And we have a new dividend policy in place that reflects the volatile nature of our earnings and gives certain degree of flexibility and at the same time transparency to our shareholders.

Starting with the balance sheet. Following the divestment of Uniper, it is much stronger and the leverage has been reduced to a comparably low level. This provides a good buffer to accommodate ongoing, uncertain and volatile market conditions. In affirming our commitment to a stable credit rating of at least triple B flat, we would be comfortable with financial net debt to comparable EBITDA of 2.0 to 2.5 times in the longer-term. Earlier, our leverage guidance was to be below two times. Please note this additional flexibility is not to cater for additional growth in the short-term, as we limit our growth CapEx until 2025. There are still some uncertainties. Following the substantial changes to our business structure, we have to acknowledge that our earnings profile can be more volatile in the future, as it is even more a function of the Nordic power prices compared to the past. This is the reason for the new dividend policy. The renewed dividend policy, a payout ratio of 60 to 90 percent of comparable earnings per share, reflects the potential earnings fluctuations of Fortum's power generation portfolio that we might see going forward and aligns the earnings and dividend profile.

The proposed dividend for 2022 of \$0.91 per share corresponds to a payout of 75 percent of the Group's comparable EPS for continuing operations. This is at the mid-point of our new dividend policy. In this calculation, we have excluded the impact from the Russian operations. In addition, the dividend is proposed to be paid in two installments during the second and the fourth quarters. This is better aligned with our cash flow and earnings profile. As I already mentioned, next to the strong financial foundation, we will focus on financial discipline and total CapEx budget of 2.4 billion until end of 2025, including 1.5 billion of growth CapEx. This includes maintenance, the 2.4. This excludes any potential acquisitions. Our financial discipline is complemented by investment hurdles that are added on the project weighted average cost of capital in a range of 150 to 400 basis points depending on projects or, for example, how mature the applied technology is. In the current high inflation environment, the visibility on cost elements in the value chain is comparably low, especially for longer project lead times.

Finally, the sustainability targets give us direction in our decision-making. Delivering on this makes us a better company and ultimately, again, lifts hidden value. We will continue to care for the people and communities around us, with our social sustainability commitments, including safety, employee engagement, just transition, and our supply chains. As I already

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said, we remain committed to maintaining a credit rating of at least triple B flat. Fortum's balance sheet is stronger and leverage has been reduced to a fairly low level, providing a substantial buffer to accommodate ongoing, uncertain and volatile market conditions. At year-end, our financial net debt to comparable EBITDA was at a very healthy level of 0.6 times, excluding the impact from Russian operations. When looking again at our maturity profile, you can see that in February, we repaid a €1 billion bond. The corresponding impact is to be seen in our liquidity position. It is also essential to note that we have the right to extend the maturities of a total of €1.6 billion of debt from 2023 to 2024. Taking all this into account, our liquidity position is solid.

In order to refinance our debt portfolio, we intend to return to the bond markets in due course to enable a more sustainable debt structure, to extend maturities, and further improve financial flexibility, which will in turn support strategy execution and growth in the mid and the long-term to recap our approach to growth and strategy execution. In order to manage the short-term uncertainty in our operating environment, we will take a more careful approach in the short-term. However, the aim is to ensure that we are in a good position to take advantage of attractive growth opportunities. Because of this, we look at the strategy implementation in phases. It is important to ensure solid performance. Thus, the focus in the first stage will be on optimizing the best-in-class operations, concentrating on earnings and cash flow, as well as returning to the bond markets to refinance the Group's debt portfolio. This requires balance between capital expenditure, balance sheet, and dividends. We will simultaneously build capabilities for future growth by exploring opportunities and developing a project pipeline together with industrial customers. In the second stage, and this might be in the mid of this decade, we will consider larger scale growth decisions which might require increased capital expenditure. Having said that, over to the concrete implementation of our new strategy.

How is the strategy reflected in our new operating model and who are the leadership team that are committed to deliver on the new strategy? Very briefly on our renewed operating model. The new business structure mirrors the key value drivers in Fortum's clean generation portfolio, strong sales and trading capabilities and customer orientation. Our Consumer Solutions business continues to provide a competitive offering of energy solutions to consumers and small and medium-sized enterprises, predominantly in the Nordics and Poland. Consumer Solutions will continue to be reported as its own reporting segment. A former generation division will now create value through four distinct business units. Corporate customers and markets will be responsible for hedging and value creation in both physical and financial power markets and managing supply for the Consumer Solutions unit. This unit will also be the customer interface for large industrial customers. Hydro generation and nuclear generation, which respectively will be responsible for running and developing Fortum's Nordic generation fleet.

And finally, renewables and decarbonization will be responsible for driving growth in wind and solar power, as well as developing decarbonization projects with industrial customers. This unit is also responsible for Fortum's district heating and cooling business and decarbonization, of course, of the heat production assets. All these four units that I mentioned will be reported as one generation segment going forward. The other segment

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will include our Circular Solutions business unit, which is responsible for operating, maintaining and developing Fortum's recycling and waste assets. These businesses are not in the core of Fortum's new strategy and thus the unit will continue to develop the business stand-alone. The other segment also includes our enabling functions and corporate management. As our exit from Russia is still ongoing, Fortum will also continue to report its Russian operations as a separate reporting segment for the time being.

I would now like to introduce my new leadership team. I start with the businesses. Consumer Solutions will continue to be led by **Mikael Rönnblad**. Corporate Customers and Markets will be led by **Simon-Erik Ollus**, who is currently heading Fortum's Generation Division. Renewables and Decarbonization will be led by **Peter Strannegård**, who is currently Vice President, Strategic Projects at Fortum. Hydro Generation will be led by **Mikael Lemström**, who is currently Vice President, Hydro at Fortum. Nuclear Generation will be led by **Petra Lundström**, who is currently heading our Nuclear Engineering Services and Co-owned Assets. Continuing then with the enabling functions, our incoming CFO, **Tiina Tuomela**, is not here today. She will join us from Uniper at the end of the month. Sustainability and Corporate Relations will continue to be led by **Nebahat Albayrak**. People and Procurement by **Eveliina Dahl** and Legal by **Nora Steiner-Forsberg**. Our current CFO, **Bernhard Günther**, will take on a new role. He will head Fortum's Transformation Office and IT. Thank you very much, colleagues. I'm very proud of this team. Thank you.

**Markus Rauramo:** Let me now briefly summarize the key takeaways from an investor perspective. Our new strategy is built on the expectation of substantial demand growth in the Nordics in the mid- and long-term, while at the same time it is addressing the current uncertainty in the operating environment. This is not a sit and wait strategy. We can actively drive the decarbonization of industrials with our offerings and enable the acceleration of the energy transition. Fortum has what it takes to drive this. Consequently, renewed Fortum is built on three pillars. First, a very competitive Nordic generation portfolio that delivers clean power generation at terawatt hour scale, making us the preferred partner for industrial partners. Fortum is one of only two players in Nordics who can provide the competitive, reliable and clean energy at scale to enable the re-industrialization of the Nordics. Therefore, we will focus on best-in-class operations, maintain the high availability, efficiency, and safety of our Nordic fleet, and secure and optimize the profits from the still elevated price levels.

Secondly, we want to be a leader in sustainability to enable the energy transition and to do our part in preserving the balance of nature. With very low specific emissions, we could significantly raise the bar for our climate and environmental ambitions. This target plays us very well compared to our peers and will guide us on our path in creating sustainable shareholder value. And finally, we have regained a solid financial position that we will preserve to manage the current uncertainty. And we will be prudent in our capital allocation and selective with growth projects, prioritizing profitability. This will be ensured by a clear financial framework with the focus on balance sheet strength, CapEx and dividend to ensure value creation. With this, I close the strategy section and hand over to Ingela for the Q&A session.

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**Ingela Ulfves:** Thank you, Markus. In the beginning, I mentioned the instant feedback poll. So just as a reminder, please scan the QR code. And for those online, when you see the pop-up appear on your screen, please be active and give your opinions. Already in advance, I want to thank you for providing your valuable views. Now then, over to the Q&A. I said we had reserved some 30 minutes, we actually have a bit more for that. So, let's begin here with the audience in the auditorium. Please raise your hand if you have a question and we will bring you a microphone. Before the question, please state your name and company. And we also ask you to limit yourself to two questions each to start with. After that, we will then continue with the teleconference. Okay. Please go ahead.

**Artem Beletski:** Yes, Artem Beletski from SEB. Thank you for the presentation and indeed the questions from my side. The first one is related to gross CapEx and basically 0.7 billion, which is not yet committed. How we should think about it in terms of areas of allocation, is it predominantly renewables that will be fulfilling your basic return requirements or do you see that, for example, clean hydrogen is already there? And relating to the same topic actually what comes to possible investment acceleration during the latter part of this decade? What should be driving it? Is it basically reduced uncertainty or some technologies like SMRs or hydrogen, for example, being say more mature? Thank you.

**Markus Rauramo:** Okay, I can take that. Thank you for the question, and thank you, by the way, all for coming here once again and listening to our presentation. So, like I explained in the presentation, first in line is what is technologically mature and where there is demand, so renewables are a clear case, that's where we have developed already a pipeline and we're executing. I did tell that with regards to hydrogen, offshore wind, or new nuclear, there we are in the explore mode. Nuclear, obviously, if it would be new-build, that depends on the findings from our feasibility study. On hydrogen, it is more based on that we need to learn what are actually the technological solutions, what is the customer demand to get there, but in the short-term renewables. Then with regards to the investment acceleration, we take a two-stage approach. We have now set the frame for the coming three years. Of course even during those three years, we will assess our financial condition, we will assess the investment opportunities and what would then be the headroom going forward, maintaining the balance between balance sheet, dividend, and growth CapEx. Satisfying all these three corners, keeping the company in balance. Our focus in the short-term is on efficient delivery, efficient operations, and disciplined allocation of growth CapEx.

**Artem Beletski:** Great. Thank you.

**Iiris Theman:** Hi, this is Iiris Theman from Carnegie. So, firstly, can you share any thoughts about the timeline of the Russian divestment? Do you think that it could be completed this year and could you just exit the business if it's not possible to divest it? And then secondly, do you think that these elevated power prices are basically sustainable, or perhaps you can share your thoughts about the Nordic power demand supply situation in the future? Thank you.



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**Markus Rauramo:** With regards to the timeline of the Russian divestment, we have been reporting several times on the progress. What I can say is that we've had rather normal M&A process. The assets are in good shape. There have been several interested parties, but as we have said, an approval of any transaction in our case depends on the Russian government commission and the President's approval. On that point, I cannot, unfortunately, give any timetable. With regards to what we are doing with our Russian assets, we are very committed to that, we will exit Russia. That direction we are taking, but in the meantime, we will continue to take good care of the assets. We will focus on the governance and the efficiency and availability of the asset, because that is also important from our point of view, that we can preserve value in whatever scenario is facing us.

Then for the elevated price levels that we are seeing today, I did mention that even if price levels have come down, they are still a multiple of what they were historically. The very high prices did put stress on the industrial customers and consumers, and this caused a lot of turbulence. Now we're in a situation where as an outcome of all this turbulence, we actually see what I was referring to a lot in my presentation, which is that even with elevated price levels, the Nordic price levels are more competitive than the continent. And Nordics have great potential going forward for energy-intensive industries to locate in the Nordics and the demand outlook looks very good. I wouldn't comment as such on the prices, other than that more competitive than most of Europe. Bernhard, anything from your point of view on the prices or observations?

**Bernhard Günther:** No, I think. You also asked about supply demand, I think this certainly an issue which will also drive commodity prices in Europe, which we have seen to have large impacts on the Nordic power prices as well. It remains to be seen, for example, whether continental European gas prices will go after significant LNG capacity becomes available and where the global gas markets go. This is maybe also relating to the question about the second half of the decade that we had earlier. Yes, I think it's even good that we now have a bit time to see how things will play out and how demand growth will come to the Nordics and to what extent, and how the framework around that regulatory and political will develop.

**Ingela Ulfves:** Thank you. Any further questions? Kalle.

**Kalle Karppinen:** Hello, Kalle Karppinen, Nordea Asset Management. Two questions. Simple one or short one on the windfall tax, the impact on guidance is on a 1.5 percentage points on midpoint, and if we look at consensus pre-tax, that translates to like 30 million, which is very little compared to the government estimates for how much they expect to get, so is that a correct calculation and how can it be so low? Then the second question on the renewable investments, what is the geographical scope of that? Is that strictly Nordics or is that more wide? What is your view on the previous India solar plants you have been doing and so on? How should we think of the scope of that CapEx budget?

**Markus Rauramo:** Yes, I can start on the renewables and the windfall tax calculation is so complex that I'll happily hand that over to Bernhard. I'll make an overall comment there. On renewables, certainly the focus is on Nordics. Then I'm thinking about new renewables build

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out. The point there is that we see Nordics being really competitive. We know roughly where the levelized cost of energy for Nordic wind is, and on a global scale it is attractive. Because of these natural conditions, we see that the Nordics for wind, Iberian Peninsula for solar. I'm not saying that that's our core area, but this will be the areas in Europe that will have an energy surplus and the continent, both for actually still decreasing supply reasons, will be in energy deficit. So, from our point of view, with the CapEx amounts we have, then Nordics certainly gives us a lot of opportunities. In India, we have been learning how to do solar in industrial scale, so I'm actually rather pleased with what we have learned. This is a Finnish expression, rather pleased. I'm very pleased about what we have learned in India. Really good execution of multi-hundred megawatt solar park. We have gained competencies that we could never have learned here in these circumstances.

Then the question is how would we utilize these competencies going forward? For now Nordics and wind look like, let's say, the place where you could expect that things are happening.

Then with the windfall tax, I'll just give a kind of a high level view. The Finnish government initially stated certain ambitions on what they would raise with the windfall tax. Then the government has taken this down significantly. That already recalibrates the numbers. Then the complication I was referring to that it's the capital base, et cetera, and profitability and what are the profits and so on, that matter. Happy to give Bernhard the word here.

**Bernhard Günther:** Yes, so we don't provide any quantitative guidance, but I would maybe give some qualitative direction to your estimate. Of course, the windfall tax will apply to 2023 numbers. If you look at current consensus that currently prevail in power prices, you would see that 23 numbers might be higher than the 22 numbers. So, just from that perspective, I would think it might be a bit too low what your estimate currently is. I think the main message is wherever exactly it will land, and we all don't know how power prices will ultimately turn out, it's in the bigger scheme of things, I think, not something which changes the whole equity story of Fortum as a company.

**Ingela Ulfvies:** Thank you. Any further questions here? If not, then we can shift over to the teleconference. Operator, we are now ready for your questions. Please go ahead.

**Operator:** If you wish to ask a question, please dial star five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial star five again on your telephone keypad. The next question comes from Harry Wyburd from Exane BNP Paribas. Please go ahead.

**Harry Wyburd:** Hi, everyone. Thanks for taking my questions and thanks a lot for the presentation this morning. I'll keep to the allocated two. The first one is on balance sheet deployment and specifically on the timing of it. You mentioned that your CapEx programs or your major CapEx decisions were ones that would be taken in the middle of the decade. What would your preference be between M&A now and large organic CapEx deployment later on in the decade? In other words, you've probably got several billion euros of spare balance sheet capacity, should we expect that you want to get to your two to two and a half times net debt to EBITDA target quite quickly or could we stay well below two to two and a

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half times until 2025 and then you'll make a decision on balance sheet deployment? That's the first one. The second one is a very specific one on Russia. I believe in the Russian press, and it seems to match your local Russian accounts there's a 75 billion ruble intercompany loan between Fortum Russia and Fortum. I believe Kommersant was saying that the minimum value you'd expect for the business would be the repayment of that intercompany loan, which is obviously what you got with Uniper, which would put a floor of just sub €1 billion on the value of a Russian business. Is that something you could comment on? Would you expect to get that intercompany loan repaid in an exit from Russia? Thank you.

**Markus Rauramo:** Okay, so I can start with the balance sheet deployment. I think I was really stressing the point about now being disciplined about capital allocation, about the boundaries, about the balance sheet and then the investment hurdles. This is because the operating environment has changed. We haven't seen this kind of interest rate environment, we haven't seen this kind of inflation environment, and we know that also it's harder for, for example, equipment suppliers now to commit firmly to supplies. We will take this very carefully. We are not in a hurry to deploy CapEx or we're certainly not in a hurry to do M&A. The focus really is on helping our customers with their decarbonization and make sure that we can deliver the clean power reliably, flexibly when needed. Supporting the decarbonization doesn't only mean CapEx deployment, it can be other things. For example, the Microsoft data center investment in the capital region in Finland is a good example. They are investing with the heat of acre. We are providing space for LNG tanker not owned by us, but we provide the infrastructure for the operators to do that and connect to the gas grid. Our interest is that the Nordics can live up to its full potential on the industrialization, on attracting industries that require a stable operating environment and reliable clean energy. Then with regards to Russia, on that I would comment that any transaction either repatriating dividends or repayment of loans or doing a sale of shares, that requires the government commission and possibly the Presidential approval, so let's say that applies to whatever component we are talking about. That's the information and understanding we do have.

**Harry Wyburd:** Okay, that's fair. Thank you.

**Operator:** The next question comes from Wanda Serwinowska from Credit Suisse. Please go ahead.

**Wanda Serwinowska:** Hi, Wanda Serwinowska, Credit Suisse. Thank you very much for taking my questions. I will stick to the two. The first one is on Russia. I think the book value of the net asset is 1.7 billion. That implies five to six times EV to EBITDA, especially given that the new capacity payments will expire. What makes you confident that you can achieve basically a multiple above the peers, given that you are under pressure to sell the asset? The second question is on the dividend payout ratio. Are you going to use the dividend payout ratio to smooth the dividend? Because as you mentioned, earnings might be volatile because you will be more exposed to the power prices in the Nordic. Should we basically assume that this year is 75, next year's earnings will improve, it will be below, I'm just trying to understand what would lead to a 60 percent payout ratio and what would lead to 90 percent payout ratio. Thank you very much.

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**Markus Rauramo:** Okay, on the valuation of Russian assets, I think this is something that Bernhard can give us because this falls into impairments and so on, into his territory. Then for the dividend payout ratio, the point there is that we can even better manage the balance between the balance sheet strength, the dividend, and growth CapEx. Of course the earnings capacity of the company impact all these three corners. We have debated a lot in the company that how do we think about this? How do we best position ourselves to reward our stakeholders and our shareholders and are able then to capture these growth opportunities. Now we have proposed a dividend that is right in the middle of the range. There is a range. Then depending on the company's situation, the prospects, the possibilities, balance sheet growth, opportunities, investor preferences, we as management will propose to the Board every year what is our assessment of the situation, and the Board then makes a decision what they propose to the annual general meeting. This is the way we'll approach it. At this moment, I cannot pre-empt what would happen next year, but our key message is that there is a range that then connects the dividend tighter to the earnings capacity of the company. On Russia.

**Bernhard Günther:** On Russia, as you can see from the numbers we've published, the EBITDA of Russia is above 400 million. So, the multiplier you would get dividing the 1.7 by 400 plus is rather in the four times order of magnitude, which we think given the quality of our Russian assets, is very much in line with our previous valuations. I mean, we all know that this valuation ultimately, in reality, will hinge upon the progress we make in exiting Russia and under which concrete conditions and circumstances it will materialize.

**Wanda Serwinowska:** Actually, Bernhard, a very quick follow up. I know that it's 400 for 2022, but the new capacity payments are expiring and this will hit your EBITDA in Russia pretty severely. [INAUDIBLE] Very quick follow up to Markus, if I may, on the dividend. Are you comfortable with a declining dividend in the short-term, medium-term, long-term? Because in the past you were basically highlighting an importance of a growing dividend. As you link it to the EPS, is it possible that dividend at some point will go down? Thanks a lot.

**Markus Rauramo:** If I start with the Russia part, we take into consideration the methodologies that the Russian government is now applying, independent valuations, et cetera, which are the generic way that they look at things and potential haircuts and so on, and then the inherent value of the business. Of course for the impairment testing, we've had to heavily scrutinize the values and we think this is a fair representation of the value of the asset taking all of this into account. Indeed it is so that the dividend per share would then move with the earnings per share, but of course the board will then have the discretion to move within that range. Then the point is like you are making that, we are not saying any more stable or referring to overtime growing, but rather saying that the dividend is now linked to the earnings per share in a tighter way, and our intention is to stay within this range.

**Wanda Serwinowska:** Thank you very much.

**Operator:** The next question comes from James Brand from Deutsche Bank. Please go ahead.

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**James Brand:** Hello. Good morning to most you, good afternoon to you in Finland. Thank you for the presentation. I have two possibly might be interpreted as three questions, apologies for that. First one is on the waste business or Circular Solutions, as I think you're calling it now. You've moved that into other and you're saying it's no longer a core. Why is that? Wasn't that long ago that you acquired the business and it's possible to see how some things like waste off takes could potentially fit into your strategy of helping industry decarbonize. That's the first question. The second is that supply and the district heating operations obviously in a not non-core, so I guess they're core, but it wasn't that long ago that you were looking to sell those operations, but it seems like they could potentially both fit quite well into the idea of helping industry by supplying them with power and gas or potentially through heat off takes. Are they definitively core now? There'll be no desire to return to a disposal process in the future? Then kind of potentially third one, and my apologies is, on the renewable assets where you're saying that's the focus area for growth, do you have much of an established pipeline in Nordic wind? Thank you very much.

**Markus Rauramo:** Okay, starting from the Circular Solutions, so it is a correct observation that how did we describe it then. The point there is that when we talk about clean Nordic energy, we refer to electricity, we refer to how that is connected now to moving from fossil processes to clean processes, from fossil gas, for example, to clean gas. Circular Solutions to achieve the society's targets is a very important business for all of us, but it's very different from all the rest of our businesses. It has its very own characteristics and very different type of customer demands. Maybe the point about the district heating exactly makes this point. What we see there is that the heating business is tightly tied to electrification and sector integration. When we talk about cleaning the gases and cleaning the processes, that could be electrified. One example of this is actually the Microsoft project that I referred to already, huge data center project, which will require massive amounts of electricity, and then it will have massive output of excess heat that through a district heating network we can actually use. This alone, this one company's project will supply, when they're all done, 40 percent of the heat for the Espoo-Kirkkonummi system, which is second biggest in Finland and one of the biggest in Europe. That's when we talk about the sector integration and clean Nordic energy. So then the Circular Solutions business is quite different from this.

On the renewables side, we have been working for a long time on renewables. We have implemented projects in Finland, in Sweden, in Norway. Of course, historically, in Russia, we had the renewables in India, so we have a fair amount of knowledge and competence in this business. We have actually executed already gigawatts of projects and we have been doing the work on the pipelines of projects. We have done land acquisitions, and planning, and zoning, and so on. Yes, there is a pipeline that is commensurate with the CapEx headroom that I commented on earlier, but then if we would make any investment decisions, they have to fulfill the targets that I laid out in the financial KPIs section.

**Bernhard Günther:** Maybe one addition to the macro theme about this. Not just district heating, but also the whole growth prospects in the Nordics that Markus alluded to, and this is now me talking as somebody who has only come to the Nordic countries quite recently. I think sometimes I'm wondering to what extent everybody here is realizing on what potential gold mine for the green reindustrialization of your countries you are sitting here. Coming

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from a country like Germany, which is still heavily industrialized, but now hit very, very badly by rapidly increasing energy prices and huge challenges to transform this to green in a reasonable, affordable manner. I think this is a huge opportunity. For me, this is also the big game changer over the last two years or so, even accelerated to all the unfortunate geopolitical developments that the Nordics are just pulling ahead, potentially, of most of the rest of Europe as a cheap green and clean energy, including hydrogen hub. These opportunities, of course, will take time, but I think this is something which is very remarkable compared to many other countries and their current woes.

**Markus Rauramo:** Okay, so in the spirit of sector coupling, we count James's questions as one question.

**Bernhard Günther:** Okay, good.

**James Brand:** Oh, brilliant. That's good to know. Thank you very much for the answers.

**Operator:** The next question comes from Sam Arie from UBS. Please go ahead.

**Sam Arie:** Hi, thank you very much for the presentation today, very, very helpful and lots of great material in there for us. I'll just ask one question and actually all my questions have been asked already. My question is a kind of follow up on Wanda's question, which I thought was absolutely spot on, but I'm going to admit I was a bit surprised by the answer, so I just wondered if you could talk to us a bit more about why you would move away from the old language of a stable dividend. Some people would look at the rebasing that you've done today and think, well, okay, there's a good logic for it if you rebase the \$0.91 and then your payout ratio can go up to 90%, then there's no need for the dividend to go down in absolute terms unless your earnings ex Russia go below a euro or so. That could have been quite a nice positive, but I hear you saying actually you're not thinking about it in that way. I'd just love to hear your logic for that, and just to be a bit controversial, when I'm just running this through in my head, the only thing I can think of why you wouldn't use the payout ratio to smooth the dividend and keep it stable is maybe you're thinking about inorganic, you're thinking about the Uniper assets in Sweden, you want to retain flexibility on CapEx, as you said, because otherwise you could keep the dividend stable and what you could flex is leverage, whereas you pointed out you have masses of headroom. Sorry to come back to a topic we've already touched on, but I'd love to hear some more from you on that one. Thank you.

**Markus Rauramo:** Yes, thanks for the question. I fully understand the question and where you are coming from. I would say that using a range to smoothen and stabilize in a narrow frame, that would work if we would assume that power prices would move in some kind of a corridor, but the starting point is now that without Uniper and eventually without Russia, we will be more exposed to the Nordic power prices. We are an outright producer in the Nordics, so our result is very subject to the power price. Then what we have been anticipating for years, and I guess most others as well, is that when renewables are the big alternative and big possibility for growth in clean power generation, there will be more volatility and the systems will become more volatile. What we have seen already now is that, well, this has happened for many reasons, and we would expect that the volatility will

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continue and amplify unless there's some kind of regulatory change in the market going forward. Because of this, we think that it is then prudent balancing between the balance sheet strength, between growth CapEx, and between dividend that we now reintroduce a payout ratio and that we follow the payout ratio as well, so not go under, not go over. Then of course within that range, there's flexibility for management and for the Board to propose where the dividend would in any given year be. Of course there we are, as usual, in tight dialogue with the equity markets, with our shareholders to see what is the preference within this framework, but then all these three corners have to work so that we can credibly stay behind how we've described what we intend to do in the coming years, and how we will deliver long-term value creation by utilizing our competencies in a good way to create new earnings. This is really facilitating to make that happen better.

**Sam Arie:** Okay, I have like ten follow up questions, but I guess I have to save them for roadshow. Thank you for your answer, I appreciate it.

**Markus Rauramo:** Thanks, Sam.

**Operator:** The next question comes from Louis Boujard from Oddo, BHF. Please go ahead.

**Louis Boujard:** Hi. Good morning. Thank you for taking my question. Maybe a follow up still on this CapEx plan, which seems to be a bit cautious to a lot of us apparently, and it's hard to understand precisely what prevents you from being more aggressive today. Maybe if we rank the different elements at this stage, what we can say is uncertainty with regards to the regulation framework, the credit agencies in which you are still with a negative outlook with a triple B rating at this stage. Maybe you have also in mind some M&A opportunities or new nuclear investments. Could you rank on these four topics, which one are the most important for you on which you need to have more clarity and more visibility in order to be maybe a bit more aggressive going forward in your CapEx plan? In which order would you rank them? Regulation framework, credit rating agency, M&A opportunities, and new nuclear investments. With regards to the second question, maybe on the Corporate Customer and Markets business line, are you going to propose some earnings on this line? Is it going to be visible going forward? Shall we consider that this line is going to be something like a trading hub that is going to capture maybe new PPA solutions and ongoing development with your future customer base? Is it the way we should look at it going forward? Thank you very much.

**Markus Rauramo:** Yes, I'm sorry I missed something from the second question in the beginning, what were you referring to? I got the latter part of it. But if you can repeat the beginning.

**Louis Boujard:** Yes, sure. Regarding the Corporate Customer and Markets, I wanted to be sure if we are going to have any earnings visibility on this specific line, or is it going to be embedded into the global generation business and if we should see it as a kind of a trading hub in your portfolio.

**Markus Rauramo:** I can start with that. Like we said, this and the three generation businesses, Nuclear, Hydro, Renewables and decarbonization and the Corporate Customers

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and Markets, these would be reported as one segment going forward. I think that answers that one. Then on the maybe, please--

**Bernhard Günther:** On the trading, so if trading refers to prop trading, there's no change in our current stance that there is no prop trading at Fortum. I would rather say it is a commercial hub, not a trading hub.

**Markus Rauramo:** Good addition.

**Louis Boujard:** Yeah, that was the sense of the question. It should be seen as a commercial hub, in fact.

**Markus Rauramo:** Yes. Then on the CapEx, the big question was why aren't you more aggressive, numbers look good, balance sheet is good, earnings are good, things are now looking very nice. We've done an enormous amount of work to stabilize the company, and to be very, very honest, our people have done extraordinarily good work. The availability of the power plants has been good, really good. They have been operated safe, there has been really no unavailability to be mentioned or to be noted, so great work and previous generations have done good work in investing in this. So, why aren't we then leaning more forward with regards to the numbers? Well, first of all, we want to be disciplined. We really want to make sure that the base is solid. We now reported on last year, but if you look at the whole of last year, it was extremely turbulent and volatile, and we were in difficult situations. Looking at where we stand right now, things look good internally. Our equipment looks good, but we have war in Ukraine going on. There is inflation. We haven't seen all of that, how that all will play out, how will the supply chains work? How will all the geopolitics work? What do the higher interest cost then for businesses, our customers, for the suppliers and so on? Then looking through these lens, if you can capture what I was just going through, so through this framework, we're thinking that there is great potential, and Bernhard was just accentuating that with his observations, that there is very good potential. There's fundamental potential in the Nordics to supply clean energy and clean energy derivatives, chemicals, synthetic fuels, synthetic hydrogen, in large scales for industries to locate here. This is the potential we're focusing on, but doing that very carefully.

Every customer discussion will be competitive eventually. We need to think about how to balance risks and so on. If I think about the priorities that what is happening, our key priority really is now to make sure that we supply our customers today with the clean power effectively, and safely, and very reliably, and if possible, given our investment criteria, if there are possibilities, then we can invest so that it helps our customers to do their decarbonization. In that line of thinking, the first priority naturally, with the technical maturity and cost level, then renewables are the thing that could provide new megawatt hours to customers. Then we know that there will be the question about production profile and so on. Then the value of our flexible hydro fleet and our reliable nuclear fleet become very important. Other things in similar scale will follow later if they follow, so that's up to if the hydrogen economy develops, if the technology matures, if it becomes competitive. On nuclear, it is about the nuclear feasibility study, technical, commercial, regulatory conditions.



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It's great to have this enthusiasm now in the market, but there's a lot of work for the equipment suppliers to do to really reliably actually provide new capacities. SMR suppliers are themselves talking about having the first units commercially available somewhere in the late 20's: 2028, 2030. Then for an operator to really have the comfort that, well, there is technology that you can then commit to and commit to your customer, there's a lot of work to do before we would get there, that we would be in a position to take any decisions on that front.

**Louis Boujard:** Thank you very much.

**Operator:** As a reminder, if you wish to ask a question, please dial star five on your telephone keypad. The next question comes from Deepa Venkateswaran from Bernstein. Please go ahead.

**Deepa Venkateswaran:** Hi. Thank you so much for giving me the opportunity. I have two questions. Firstly, just on your hurdle rates, you've communicated that you're targeting 150 to 400 bps over WACC. Previously, under the old strategy, it was 100 to 200, so I just wanted to ensure that have your WACC changed substantially? Hopefully, they've gone up but not come down. Can you confirm that you're being much more disciplined now than before? Because I think that would give a lot more reassurance to investors given the track record, particularly on M&A. And second question on Russia, could you clarify what would be the net debt of Fortum if you deconsolidated the Russian operations? Is it possible, for example, if these approvals don't come for two years or three years, that you can walk away from these assets, obviously realizing nothing in return, but just wondering whether there could be an exit time we could pencil in, in case you don't get the approvals. Thank you.

**Markus Rauramo:** I can start with the approach on the investments and then comment generally on the Russia. Then Bernhard, if you want to, comment on the deconsolidation. On the hurdle rates, yes, this is supposed to indicate that we will be more scrutinous and more careful with our investments. We are raising the hurdle rates and weighted average cost of capital have gone up. When we look at the theory, we can see quite a big differentiation between projects where you have firm off takes and purely merchant projects, so that will reflect then into the weighted cost of capital. In general, obviously, WACC have gone up. The point about the hurdle rates also is to indicate that, like previously, we had green and non-green projects and we were not terribly keen to do something with fossil content. Now this is more about, if we talk about the upper end of the scale, then we are referring to cases where we would do something where the commercial models or technological maturity is not very high. Then of course, one can ask the question that if you need 400 basis points, is this a project you should be doing at all for a business like ours? This gives the indication that internally, when we scrutinize the projects, yes, we will apply more scrutiny.

**Markus Rauramo:** Then for the Russian question, I think it was asked already earlier that can we just walk away? There the question is that how can you do a beneficial transfer of ownership that requires a permit? Even if you would say that, well, we don't want to be an owner of the business, then the question is, well, who else can be the owner of the business? Because we are the registered owner of the shares. This, in essence, is the

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question in the long run, but the background for all of this is that we do not see that we would continue to do business in Russia and therefore, we are committed to exiting the Russian business, but we will do it prudently and in the way, as a prudent company like we have worked in Russia also, so we'll take the right steps and exit in the way that then the table is clean after that. For the deconsolidation, if you want to add.

**Bernhard Günther:** In the financial bulletin, which I think is going to be published tomorrow?

**Ingela Ulfves:** For the financial statement it's tomorrow.

**Bernhard Günther:** On page 91, you will see that the net financial debt for Russia is close to zero, so the deconsolidation effect on our net debt would accordingly also be close to zero. Of course, you have seen in the presentations we've shown today that the positive EBITDA from Russia not being counted, then increases slightly our net debt over EBITDA KPI on the rating side, but it's only the denominator moving, not the numerator.

**Deepa Venkateswaran:** Okay, and the intercompany loan, would that not have any impact on the deconsolidation?

**Bernhard Günther:** Well, I think this is then package of the overall proceeds we get from Russia. It doesn't, from that perspective, then matter if it's whatever the purchase price would be when we realize an exit. Ultimately, net debt wise it doesn't make a difference if it's booked against a loan or against the cash position of the company as sales proceeds for the shares.

**Deepa Venkateswaran:** Okay, thank you.

**Operator:** The next question comes from Piotr Dzieciolowski. Please go ahead.

**Piotr Dzieciolowski:** Hi, no, it's Piotr Dzieciolowski from Citi. I just have one question, I wanted to understand what is your view on how Fortum could be impacted by the European power market design reform? Do you think some of your assets, as inframarginal technologies, could be regulated, especially for nuclear? Would it be positive or negative? Thank you.

**Markus Rauramo:** We're following the reform discussion very closely, of course, directly and through Eurelectric and what our key point there is that for any type of change in regulation, it would have to be really carefully analyzed that what is the impact on supply? What is the impact on demand? Does it really have the intended consequences? With some of the thinking we have seen, you get quite quickly to some type of rationing type of discussion. If you start to categorize that there are certain type of capacity that will be first allocated and secondly, something else, then the question is, well, who's going to get that first capacity and who has to pay more for the second capacity? Very quickly, you're get to a discussion about having to set up a market for these different type of products. Overall, at least, I'm not in a position yet to start to comment on what it looks like for us. We have seen different kinds of regulations and measures put in place in various countries, but not quite there yet where the European reform is going.

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**Piotr Dzieciolowski:** Okay, and if I can follow up then on Loviisa extension project, so do I understand it correct, you are okay to do it on the merchant basis, or given that the time horizon is until 2050, you would prefer the option of kind of CFD or some regulated return on this extension?

**Markus Rauramo:** We're okay to do it on merchant basis, that's where we are today. Loviisa is very efficient and very effective, well run, good asset, but overall, the question is that I think we're moving more towards a setup where customers will want to lock in longer-term availability of production, so we may eventually get into a position where we start to look at even specific assets, but this is somewhere in the future.

**Piotr Dzieciolowski:** Understand. Thank you very much.

**Operator:** The next question comes from Sam Arie from UBS. Please go ahead.

**Sam Arie:** Hi again, thanks for letting me jump back on. I thought maybe I could test Markus one follow up question with you from your previous answer, maybe combining it with an answer that Bernhard gave about the goldmine of opportunity of low cost power production in the Nordic region. I just wanted to join that comment with your comment about the outright exposure, and you also made a sort of side comment about, I think you said unless there was any changes in regulation. I was just thinking about whether we should expect your outright exposure to remain margin exposure indefinitely, and whether you're seeing any kind of interests from some of these corporates that you're partnering with to maybe take hydro PPA over a long period, or if there's any sense you think in this European market redesign discussion that there might be any moves to make longer-term PPAs mandatory for some kinds of buyers? It's just we always take for granted that your exposure is outright, but I'm just wondering while we have the chance to talk to you, whether you see any direction of travel that could allow you to fix some of that exposure and what kind of levels you might be able to fix it at given the current outlook? Thank you.

**Markus Rauramo:** Very good question. Trying to put the frame to this. We have, as you very well know and I said several times that we have about 45 terawatt hours of supply on an annual basis. When we now look at what kind of customer interest is coming to us, because customers need to decarbonize massive production processes, they are talking about several single digit terawatt hours of annual demand. Some are talking about ten, some are talking about even more. Then when we think about what will be there in the market, renewables, hydro, nuclear, something else, there will be a lot of intermittent capacity. That's what's growing fastest, so then flexibility in my books will be relatively increasingly scarce resource, and also baseload will be an increasingly scarce resource, because there's not much baseload new build in site. From that point of view, we start to see that customers are very interested in locking in energy supply for their several terawatt hours of demand going forward. If these are like mid-single digit, there's a limit even for how much we can supply of that flexibility and profile in the long run. The this was the background for the answer. Yes, we see customer interest to lock in even existing capacity for longer-term because they start to get concerned to be able to deliver against their decarbonization pledges and the pledges they made to their customers who happen to be all of us. They're telling that they're going

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to provide a clean product in 2030, and now the clock is ticking. It's not that far away anymore. How do you secure that?

**Sam Arie:** The customer interest is there, are you guys interested to sign those kind of long-term PPAs like a ten-year hydro PPA? What kind of price would make that interesting to you relative to your market?

**Bernhard Günther:** Billion dollar question.

**Markus Rauramo:** To start with, I think my whole presentation was answering the question. Yes, we are interested in working with the customers to help them with their decarbonization. This conviction is actually driven by exactly the type of customer demand we see, so we are interested in doing things that support the customers and actually then enable us to do what we are doing and to do more of it. Being able to stabilize our income in the long run and potentially to lever up the balance sheet as well with lower risk and lock in more and new projects as well with the same philosophy, that's a potential we are seriously now looking at and seeing how we could best work it out. There seems to be convergence of interest. Customers are worried about high prices and volatility and they want to lock it in, and for us to attract capital and deploy capital, volatility is not the best thing for us either. Of course, we're interested in protecting our downside. Now we see that there's convergence of interest here because of these factors.

**Sam Arie:** I find this discussion so exciting and so interesting, I just really look forward to hearing more from you all about it.

**Markus Rauramo:** Thank you, Sam.

**Ingela Ulfves:** Thank you, Sam. You will hear more from us. Okay, thank you, everyone. We don't have any further questions now, so thank you, operator, and thank you, everyone, for your activity and for participating here today. So, with this now, we end the session with the international audience and then we will continue with the Finnish media. There will be a short break now when guests exit the venue and then we will continue shortly. On behalf of Fortum, we wish you all a very nice rest of the day. Thank you.