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Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Ingela Ulfves
Vice President-Investor Relations & Financial Communications, Fortum Oyj

Good morning, everyone. A warm welcome again to Fortum's Joint Webcast and News Conference for the Investor Community and Media on our January-September Interim Report. My name is Ingela Ulfves and I'm heading the IR Team at Fortum.

As always, this event is being recorded and a replay will be available on the website later today. With me here in the studio are again our CEO, Markus Rauramo; and our CFO, Tiina Tuomela. Markus and Tiina will present the group's financial and operational performance during the third quarter and first nine months of this year.

I would also like to remind you of the upcoming Investor Day for analysts, institutional investors and other capital market participants to be held on the 25th of November. It is possible to attend both in-person in Helsinki and also virtually online. The registration is open on our website until the 17th of November.

As we do not want to preempt the content and discussions for the event, we aim to strictly focus on the Q3 performance and results in today's webcast and then leave all the other topics to be addressed during the Investor Day. We look forward to your participation and hope that as many as possible of you are able to join us then.

Now, let's go to our Q3 presentation, after which we will take your questions in the Q&A session.

So, with this, again, I hand over to Markus to start.

Markus Heikki Erdem Rauramo

President & Chief Executive Officer, Fortum Oyj

Thank you very much, Ingela. A warm welcome to our Q3 results call also from my side. I will start by going through the key elements of our quarterly highlights and our financial performance. Then say a couple of words about the hydrological situation. After that, Tiina will provide more details on the financials and how the operational performance turned into our results.

Let me now start with the highlights, starting with the very positive point. Our third quarter achieved power price was higher than last year's level, €46.1 per megawatt hour, compared to €44.1 per megawatt hour, supported by higher spot prices and strong physical optimization.

Realized market prices, which means the blended price for Fortum's price areas were €17 per megawatt hour, higher than in the third quarter last year.

Then a few words about the volume challenges we have faced this year. As you remember from earlier quarters this year, both nuclear and hydro volumes have been clearly below the normal level. The same situation continued during the third quarter. So, this year has been abnormal when it comes to generation volumes. However, this should be seen as temporary due to hydrology and unplanned nuclear outages. It shows quite clearly in this third quarter, which is typically the smallest quarter result-wise in our business.

As said, unavailabilities in our nuclear generation fleet still continue to impact the fourth quarter. Tiina will talk more about generation volumes in her part of the presentation. The efficiency improvement program is coming to an end now by the end of this year. Fortum reduces its annual fixed cost by €100 million, excluding inflation, gradually until the end of 2025. The full run rate will be effective from the beginning of 2026.

In July, we announced the acquisition of a wind power project development portfolio in Finland, which we bought from the German renewables developer and constructor, ABO Energy. This acquisition strengthens our development pipeline for renewables as we prepare for future growth.

With the acquired 4.4 gigawatt portfolio, Fortum's pipeline of onshore wind and solar projects in the permitting phase is approximately 8 gigawatts, with more projects in the early development phase. Potential investment decisions for these projects will be made case by case. The projects will be backed by customer PPAs and need to meet our investment criteria.

Currently, there is sufficient power supply in the Nordic area and we can sell PPAs from our existing outright portfolio. Fortum's coal exit progresses with the decarbonization of the Zabrze CHP plant in Poland. Today, we announced that we will invest approximately €85 million in the plant's retrofit. This is in line with our target to exit coal by the end of 2027.

On another positive note, we also updated our optimization premium for the year 2025. Now, we estimate the optimization premium to be approximately €10 per megawatt hour for the year 2025. Previously, we forecasted €7 to €9 per megawatt hour for 2025. The main reason for the increase is higher power price volatility. The lower nuclear volumes this year also contribute slightly to the higher premium.

Then I move over to our main figures and financial KPIs. Here are our familiar comparable headline KPIs for the group's third quarter and for the first nine months 2025. As you see, all KPIs decreased in all periods, which reflects the lower generation volumes. In Q3, our comparable operating profit totaled €97 million, while comparable EPS amounted to €0.08.

On a cumulative basis, the group's comparable operating profit amounted to €674 million. Our comparable EPS was €0.59 per share. The operative cash flow was at the good level. However, it decreased to €787 million. For the balance sheet, our leverage defined as financial net debt to comparable EBITDA was basically unchanged at 1.0 times at the end of September. Tiina will go into more details on the result analysis in her part.

Next, I will say a few words about the market environment, especially hydro conditions. Let's look at the situation of the hydro reservoirs for the Nordic market. It's good to note this is not only Fortum's reservoirs. As we have communicated earlier this year, reservoirs were record full during the winter, meaning in the first quarter. However, the water was mainly in Norway and northern parts of Sweden, where Fortum does not have hydropower. As the winter was mild and the snowpack was thin, this resulted in minor spring floods. Because of this, the reservoir levels decreased fast in the spring. And as you can see, now the reservoirs are close to normal level.

As we have said, generation volumes will be clearly lower this year. The unplanned outages in our nuclear fleet, mainly in Oskarshamn 3 in Sweden, reduced our annual nuclear volumes by approximately 3.6 terawatt hours for the full-year 2025. This is based on announcements so far. The current estimate is that Oskarshamn would come back online on 1st of November.

We have also highlighted the risk of lower hydro volumes for the full year. Unfortunately, this seems to be the case. For the last 12 months, hydro volumes are 17.8 terawatt hours compared to a normal hydro output year, which is between 20 terawatt hours and 20.5 terawatt hours. It is not possible to give an estimate for the full year as hydro conditions might change, but the assumption is that our annual hydro volumes will be below that of a normal hydro year. Still coming back to the power price volatility, lately, we have again see an increased volatility partly because of the introduction of the 15-minute market. The continued high power price volatility supports our capability to generate the premium through our optimization. From a value creation perspective, this is reflected in the updated guidance. We expect our optimization premium for this year to be approximately €10 per megawatt hour.

This concludes my part and I would now like to hand over to Tiina to tell more about our business performance.

Tiina Marjukka Tuomela

Chief Financial Officer, Fortum Oyj

Thank you, Markus. Good morning, everyone, also on my behalf. I will now go through our financials in more detail. Let's start with the key financials. I will start with some of the comparable KPIs. The comparable operating profit for the third quarter amounted to €97 million. In the third quarter, both our comparable net profit and comparable EPS decreased. This reflects the lower result in the Generation segment.

At the same time, our Consumer Solutions business is doing well as they generated a record high third quarter result. We are very satisfied with the Consumer Solutions result performance this year. Our comparable net profit for the quarter declined to €70 million. Consequently, our comparable EPS for the third quarter declined to $0.08 compared to $0.14 last year. Comparable EPS for the last 12 months is now €0.77. Our cash flow during the quarter declined by €218 million and totaled €131 million, mainly reflecting the lower result.

Then, over to the segment result for comparable operating profit. Compared to the previous year, our result in our Generation segment decreased, while both Consumer Solutions and Other Operations segment improved. In the Generation segment, comparable operating profit decreased by €84 million to €92 million, mainly due to the lower nuclear and hydro volumes, lower hedged power price and somewhat higher property taxes in nuclear and hydro in Sweden.

It is also notable that similar to the second quarter, the hedge ratio was high also in this quarter as a result of the lower volumes. The result contribution from the Pjelax wind farm was slightly negative. Seasonality is reflected in the district heating business, which was loss-making, mainly impacted by lower sales price for power in Poland.

As said, the third quarter shows good performance in our Consumer Solutions business. The comparable operating profit reached an all-time high third quarter level of €23 million. This is an increase of €17 million, which mainly relates to the improved electricity margin in the Nordics and improved gas margin in the enterprise customer business in Poland.

In the Other Operating segment, comparable operating profit improved by €6 million, showing a negative result of €80 million. The main reason for the improvement was lower fixed cost and higher internal charges for the services of enabling functions.

Then, let's move on to the cumulative result waterfall for the segments. When looking at the waterfall for the first nine months of the comparable operating profit at the segment level, it shows the same pattern as for the third quarter. Compared to the previous year, the result in our Generation segment decreased, while both Consumer Solutions and Other Operations segments improved.

In the Generation segment, comparable operating profit decreased clearly by €305 million to €648 million. The main reason were lower hydro and nuclear volumes, lower spot and hedge power prices, and somewhat higher property taxes in Sweden as well as higher nuclear fuel cost.

The result contribution of the Pjelax wind farm was slightly negative and lower than in the comparison period as a consequence of lower power prices. In the comparison period, the result of the renewable business was positively impacted by a sales gain of €16 million for the divestment of the Indian solar power portfolio.

The result of the district heating business was at the same level as in the comparison period. Lower fuel and CO2 costs as well as high heat – higher heat price offset the impact from lower sales price of the power. Reaching an all-time high level for the first nine months, the Consumer Solutions segment's comparable operating profit increased by €36 million and was €96 million for the first nine months of the year. The continued improvement was mainly as a result of improved gas margin in the enterprise customer business in Poland, improved electricity margin in the Nordics, and approximate €13 million of cost synergies.

In the Other Operating section, comparable operating profit improved by €22 million and amounted to minus €70 million, mainly due to the positive impact from divestment in the Circular Solutions business finalized in 2024, lower fixed cost and higher internal charges for the services of enabling functions.

Then, over to the leverage and liquidity. Our financial position continues to be strong, primarily supporting our objective to maintain a credit rating of at least BBB. It naturally also provides a good financial foundation in this uncertain and turbulent market environment, but it also caters for growth and shareholder returns.

When considering our capital allocation principles, we balance leverage, investments and dividend while always keeping the credit rating in mind. Fortum's current long-term credit rating by both S&P Global ratings and Fitch Ratings is now BBB+ with stable outlook.

I want to go through the reconciliation of our financial net debt in the third quarter. As you can see, it is fairly unchanged. At the end of second quarter, our financial net debt was €1,270 million. In the third quarter, the operating cash flow was €131 million and investment amounted to €122 million. The change in interest-bearing receivables amounted to €40 million, while FX and other effects were €9 million.

So, at the end of second quarter, our financial net debt was €1,283 million. And the leverage ratio for financial net debt to comparable EBITDA was at 1.0 times. Looking at our debt portfolio and the loan maturity profile, I want to highlight a few things. At the end of the quarter, our gross debt excluding leases totaled €4.7 billion. Bonds are and continue to be our primary source of funding. Our maturity profile is very balanced and there are no large maturities in any single year. The next maturing bond is €750 million in 2026.

At the same time, our liquidity position is strong. We have ample liquidity reserve, €7 billion with €3.1 billion of liquid funds and €3.9 billion of undrawn, committed credit facilities and overdrafts. The cost for our €4.7 billion loan portfolio is 3.3%, while the interest income that we get for our €3.1 billion liquid funds has come further down and is now 2.1%. With the strong liquidity position, we continue to optimize our cash and credit lines. The overall objective is to have sufficient liquidity while optimizing the balance between debt and cash to minimize funding costs.

Then, over to the final section, the outlook. The outlook section comprises for familiar elements. Guidance for outright portfolio, taxes, CapEx guidance, and our fixed cost reduction program. As we have stated already a few times today, we will fall clearly behind the normal historical output level this year because of announced unavailabilities in nuclear and lower expected hydro output. For the sake of comparison, in a normal year, our annual outright volume is approximately 47 terawatt hours. Based on announced outages, nuclear output for 2025 is now estimated to be 3.6 terawatt hours lower this year, of which 3 terawatt hours realized in the first nine months of 2025. Our hydro output for the last 12 months was 17.8 terawatt hours compared to the normal level of 20 terawatt hours to 20.5 terawatt hours.

About the hedges, at the end of the third quarter, our hedge price for the rest of 2025 was €42 and the hedge ratio was 90%. The hedge price for 2026 is €41, €1 higher compared to the last time disclosed, while the hedge ratio increased by 10 percentage point to 70%.

As an update today, our annual optimization premium for the year 2025 is estimated to be approximately €10 per megawatt hour. Previously, it was between €7 per megawatt hour to €9 per megawatt hour. The guidance for our corporate tax rate also remains unchanged for the years 2025 and 2026. We expect the comparable effective income tax rate to be in the range of 18% to 20%.

The Finnish government plans to decrease the corporate tax from 20% to 18% from the beginning of 2027. There is, however, no official law in place yet. Our very preliminary estimate is that this would result in a 1 percentage point decrease in the corporate tax rate from the year 2027 onwards.

I also want to repeat that in Sweden, the property taxes are revised from 2025. For Fortum, the increase of the property taxes is now estimated to be approximately €30 million for the years 2025 to 2030. The major part of the cost increase is recorded in our fixed cost. We do not make any changes to our capital expenditure at this point of time as this year is about to come to the end. However, we will come back to this topic in our Investor Day.

Finally, a few words in our fixed cost reduction program. For the first nine months, our fixed cost was €615 million. For the last 12 months, fixed cost totaled €884 million. We reduced our recurring annual fixed cost base by €100 million, excluding inflation by the end of this year, with a new run rate from the beginning of 2026.

Our current estimate is that the new run rate for our fixed cost base in 2026 will be approximately €870 million. This includes the fixed cost increase of €20 million in the Swedish property tax. As mentioned before, there are additional costs for growth in 2025. These are related to, for example, renewables development, site development, buildup of commercial organization and the hydrogen pilot project.

This was all for my presentation and we are now happy to answer your questions. So with this, Ingela, over to you.

Ingela Ulfves

Vice President-Investor Relations & Financial Communications, Fortum Oyj

Thank you, Tiina, and thank you, Markus. So, as this was a more straightforward quarter, the presentations were also a bit shorter. So now, we are then ready to take your questions. And let's begin the Q&A session. You can also ask your questions in Finnish. Moderator, please go ahead.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next question comes from James Brand from Deutsche Bank. Please go ahead.

James Brand

Analyst, Deutsche Bank AG (UK)

Q

Hi. Good morning and thank you for taking my question. English, unfortunately. Two questions for me. The first is on demand. So, you highlighted that energy demand was pretty much in line with last year. And you said that was after industrial demand experienced a slowdown particularly in Sweden. If you could just give a bit more detail in terms of what you're seeing there and what's caused that, is that just the general economic situation at the moment or is there something else going on? That's the first question.

And then the second is on the supply business. You've obviously had a great year in supply and you've seen quite a significant step-up in profitability, and it looks like you'll be producing EBITDA comfortably over €200 million this year depending on what happens in Q4. I just want to get some color from you on whether you think the profitability that you've seen this year is sustainable going forwards or whether it's been a slightly exceptional year and we would be expecting a step down in 2026, not necessarily looking for precise guidance, but just directionally, is this sustainable? Thank you very much.

Markus Heikki Erdem Rauramo

President & Chief Executive Officer, Fortum Oyj

A

Thank you. Good morning. English is absolutely fine. So, on the first one, so I attribute the, let's say, sideways movement of the demand a bit to the global geopolitical turbulence. So difficult for our customers to take investment decisions. So if I put this into big perspective, we see good signs of decarbonization and electrification going ahead. We get the incoming inquiries for new power. But investment decisions take long to take place. We see that consumers are saving and companies are being very scrutinous about their costs. So that's my quick take on the customer side.

Then on the supply side, I assume you meant our Consumer Solutions business. So, the business has experienced so far a very stable year. So, there have been few surprises, there's been volatility, but something we have been able to manage. So, we haven't had risks event – risk events like we had in 2021, 2022. So in these conditions, this is a good indicator of what the business is able to produce. But the team is doing really good work. We're getting in synergies from the earlier acquisitions, and Mike and his team are working on the efficiencies continuously.

James Brand
Analyst, Deutsche Bank AG (UK)

Q

Thank you very much.

Operator: The next question comes from Harry Wyburd from BNP Paribas Exane. Please go ahead.

Harry Wyburd
Analyst, Exane BNP Paribas

Q

Hi. Good morning, everyone. Thanks for taking my questions. The line went blank for me at the very beginning of the call, so apologies if I've missed something in the very early part. And can I – so two questions. So, firstly, the CMD, I presume you'll want to sort of keep things packed, but I wondered if you could clarify one very specific thing, which is, have you been in negotiations with a data center or hyperscaler developer over a PPA during this quarter? And would you rule out or rule in that you might announce a data center PPA at the CMD on the 25th of November?

And then the second one is on the data center tax in Finland. So, I read in the press and then noted in the release that the government has gone ahead raising the power tax on data centers in Finland. So, I wonder they also mentioned that there might be some offsetting support package. So, I wondered if you could give us some color on what that support package might be and when it might be announced and whether there might be a bit of a blockage on data center PPAs until – in Finland until that's been straightened out.

And are you seeing any discussion elsewhere in the Nordics along these lines about potential tax increases on data centers and politicization of data in the demand? Thank you.

Markus Heikki Erdem Rauramo
President & Chief Executive Officer, Fortum Oyj

A

Thank you. So maybe, Tiina, if you take the more general tax question. And then for the – regarding – well, I don't think you missed anything material that you wouldn't be aware of in the very beginning, it was about the results and the markets. But then with regards to negotiations, we are in negotiations and discussions with actually several data center operators. So, like we have said earlier, there are discussions going on about steel, aluminium, chemicals, hydrogen. And data center operators are looking for electricity contracts. So, I cannot – and, of course, I will not preempt the CMD or Investor Day, but discussions are going on certainly on many fronts.

Then on the – on more generally, so, indeed, there is a discussion going on as we can see it globally in various places regarding location of new industries, including data centers, and what kind of pressure that puts on the systems and that's why we engage in discussions about how will the whole energy system develop and what are we doing to make sure that there's then additional supply if customers are willing to pay for that and how do we also bring stability to the market as well?

And on the Finnish case particularly, indeed, this has been now in discussion for a longer time that would or would not the lower tax rate be applied to data centers going forward. And now, it seems that the government is going ahead with the tax increase, but then a compensating support for data centers up to a certain level. Those details, how does that work and what are the approvals needed for this whole setup, I think that's very much in the works still.

But, Tiina, do you want to comment further on the Swedish-Finnish tax?

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

A

Well, maybe to put some numbers around what has been discussed currently. So, in Finland, we have the electricity tax, and there, the general level for the tax is 2.24 euro cents per kilowatt hour. And then data centers have been among those reduced tax level, which has been 0.05 euro cents per kilowatt hour. And now, this will change. So, data centers will go back to this general tax level. But as Markus said, there is also a plan to have some kind of support mechanism, which should compensate at least some part of the increase in the taxes. In Sweden, there has been also discussion about the electricity tax and they reduced the level from 4 euro cents per kilowatt hour to 3 euro cents per kilowatt hour. So still, Sweden slightly higher than the Finnish tax level.

Harry Wyburd
Analyst, Exane BNP Paribas

Q

Got it. Okay. Thank you. And just sorry, just to clarify on the first one, I think in your past conference calls, you've generally said that you didn't have any substantive discussions on the go with data center developers. And I think your past comments were that generally interest is more in the shorter tenors of three to five. years. So, Markus, should I take your comments and I know you want to hold back for the CMD, but should I take that as a change in the comment there? Has the nature and the substantiveness of your negotiations on PPAs changed since we last had the conference call on Q2?

Markus Heikki Erdem Rauramo
President & Chief Executive Officer, Fortum Oyj

A

Not materially, but in the CEO comment, you would have noted that we said that we continue to see robust demand and that we thought very carefully. So, like I said in the previous – for the previous question, there is geopolitical turbulence. We see all kinds of questions around is the transition happening and so on. But our customer pipeline for the discussions we are having with the different sectors, that looks very similar to earlier quarters. So, clearly, it looks like that industries and commercial actors continue to look for places where to look at their businesses. So, the robust is the good word there.

Harry Wyburd
Analyst, Exane BNP Paribas

Q

Okay. Okay. Thank you.

Operator: The next question comes from Anna Webb from UBS. Please go ahead.

Anna Webb
Analyst, UBS AG (London Branch)

Q

Question, two for me, and then maybe a clarification, if I can. So, firstly on data centers, when you do the site development, can I ask if you bundle that with PPA contracts? So you always do the, so to say, on the PPAs or that's all separately. And what's the rationale on how you do that?

Secondly, I think you said you had a negative contribution from the Pjelax wind farm, which was an issue as well earlier in the year. Can I ask what drives this? Because the operating cost for that should be pretty low. So, I know you mentioned low power prices, but how do you get to a negative result? So, it's still a little bit unclear to me and also whether that's a kind of one-off effect and – or you think this might be a headwind into the future?

And then, finally, just if I can clarify on the volumes, I know you said hydro volumes are variable and you can't comment on full-year guidance. But if Q4 is normalized, can you comment on how much has – the delta in the first three quarters has been versus a normal year? And so if Q4 was normal, what the loss would be on hydro? That would be really helpful. Thank you.

Markus Heikki Erdem Rauramo A
President & Chief Executive Officer, Fortum Oyj

Okay. I can start with the data center question, and then, Tiina, if it's okay, if you can...

Tiina Marjukka Tuomela A
Chief Financial Officer, Fortum Oyj

Yeah.

Markus Heikki Erdem Rauramo A
President & Chief Executive Officer, Fortum Oyj

...comment on the Pjelax impact on the...

Tiina Marjukka Tuomela A
Chief Financial Officer, Fortum Oyj

Sure.

Markus Heikki Erdem Rauramo A
President & Chief Executive Officer, Fortum Oyj

...hydro and nuclear volumes. So, as you would know, when we develop the cluster – what is now becoming the Microsoft cluster in the capital region in Finland, we developed three sites, then found Microsoft and we sold the sites and we actually did – we bundled that with a deal to do the world's largest heat offtake. So, we tried to look for solutions where actually we do a win-win both for our customers, for the society and ourselves. So, this is supporting the clean heat gas power project and decarbonization leading to a massive excess heat offtake. Of course, our interest is that we would do PPAs with the site development, but then we need to look at the various customers' situations that how committed can one be at the stage when we do the sites.

And this is a dynamic discussion that we're having all the time, depending on the demand for the sites. But what can we bundle to that? But there is no one-size-fit-all for these situations.

Tiina Marjukka Tuomela A
Chief Financial Officer, Fortum Oyj

All right. Then moving to the Pjelax, so we commented that in the third quarter, the Pjelax result was negative, like previous year as well. So, these are usually the quarters when the power prices are low and this is also the reason. If we look at the – on cumulative basis, so we can say that we are nearly to the zero level. So, it is in that sense, let's say, seasonal. And the main reason really is the power price in the market than what the wind farm will capture. So even though the average price in the market is high, then when it's windy, so then the prices tend to be lower. So, the capture rate has been lower now in the summer months.

Then, about the volumes. So, what comes to the hydro volumes? So, we have stated that average production is between 20 terawatt hours to 20.5 terawatt hours per year. And this year, I would say that particularly the second quarter was the biggest difference. There, we had the production volume of 3.7 terawatt hours, which is absolutely the lowest ever production volume in our history, and that was due to the lower inflow to the water reservoirs.

And this second quarter, the hydro volumes were roughly 1.5 terawatt hours lower than our average production. So, that gives us some kind of indication of what is the difference to our average production, in general. In third quarter, the production was lower than the previous year, but not that much difference to if we compare the longer-term average. Now, the hydro reservoirs are nearly on the – roughly on the zero level or 1 terawatt hour lower. So now, the outlook for the remaining of the year looks fairly kind of normal.

Anna Webb
Analyst, UBS AG (London Branch)

Q

Great. Thank you very much.

Operator: The next question comes from Julius Nickelsen from Bank of America. Please go ahead.

Julius Nickelsen
Analyst, Merrill Lynch International

Q

Great. Thanks for taking my question. Just two for me. One follow-up on these PPA discussions that you've mentioned with the data centers in the industry. I mean, to the level that you can comment, do you see in these more long-term discussions that there is demand to pay a premium to the current futures curve? Because if I look at the 2027 hedging that you've now disclosed, it doesn't seem that there's much premium to the current futures.

And then, secondly, on the optimization premium, obviously, the upgrade to €10 this year. I mean, you haven't touched a long-term guidance of €6 to €8. Is it still fair to say that given how the opportunities shape out at the moment, that at least for the next one or two years, we should be more at the upper end of that scale, or is that difficult to forecast? Thank you.

Markus Heikki Erdem Rauramo
President & Chief Executive Officer, Fortum Oyj

A

Okay. Again, I'll take the first question. And Tiina, do you want to comment on the...

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

A

Yes.

Markus Heikki Erdem Rauramo
President & Chief Executive Officer, Fortum Oyj

A

...then on the optimization premium? So, indeed, compared to the implied forward curve, which I have to say is very thin, so liquidity is not high at all when you go further out. So, when we think about the pricing, if we go out a few years and longer, then our price curve, implied price curve is upward sloping. And that reflects the hit by the Pjelax example that new capacity with these prices is very hard to get to the market. So, the prices need to be higher for new supply to come to the market. So to start with, the further out we go in time, the higher our expectation for the price. And then on top of that, there is still the optimization premium. So, what we agree with the customer is then separate from what we get on top of that.

Then the third element I'll mention is the different characteristics. So, the more specific the customer demand is, the tighter the profile. If you want the 8,500 hour product, that will have an impact on the availability of the product if it's RFNBO earmarked a certain asset even more. And this we see practically in the PPA. So, we talk about several euros of impact for longer-term contracts depending on what characteristics a particular contract would have and then optimization premium on top of that. And that's a good bridge to Tiina.

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

A

All right. Very good. Thank you. Thank you, Markus. So, the optimization premium, so we had a guidance for this year of €7 per megawatt hour to €9 per megawatt hour, and we increased that after very strong first quarter. So then, the volatility was high and we said that the optimization premium was around €10 per megawatt hour.

What we have seen that the volatility in the market has increased. Also, as Markus mentioned, our production volume have – has been somewhat lower, which has improved the number. But also, what we can see that the predictability is getting more difficult. So, therefore, what we have done that we fine-tuned the guidance further we go to the year and see how the optimization premium will develop. So, €10 for this year and for the time being for the next year, €6 per megawatt hour to €8 per megawatt hour.

Julius Nickelsen
Analyst, Merrill Lynch International

Q

Great. Thank you so much.

Operator: The next question comes from Louis Boujard from ODDO BHF. Please go ahead.

Louis Boujard
Analyst, ODDO BHF SCA

Q

Yes, hi. Good morning. Thank you for taking my question. Two on my side. Maybe the first one regarding the hedging strategy. We see indeed the management point of view. At the same time, optimization is quite strong and is expected to remain quite strong. So, I was wondering if you are thinking about eventually changing a little bit your hedging strategy going forward longer-term in terms of duration or in terms of openness to the market prices in the short-term so that you could capture better the short-term volatility of the market instead of having a stronger visibility into the lower prices.

And maybe the second question would be regarding what you mentioned in the wind farm, Pjelax, regarding the fact that you kept your prices, again, below the one of the markets, regarding the fact that the wind, of course, blew for everyone at the same time. Do you think that it would make sense eventually to consider some investments in specific dedicated battery systems which would be related to the different farms that you could develop in the future so that you could improve the returns expected from these wind farms? That would be my second question. Thanks very much.

Markus Heikki Erdem Rauramo
President & Chief Executive Officer, Fortum Oyj

A

Okay. Thank you. So with regards to the hedging strategy, so, of course, this has – for the 13 years I've been with Fortum, this has always been the question that, what is the strategy? And the idea with the hedging is to get visibility into the short-term cash flows. Then when we go longer out, then we can adjust also our operations. So, when you go three years out, then we can do changes in our resources and processes and so on.

If we look at spot price this quarter, the average in our area was €37. So rather close to the hedge price. So then having an open position wouldn't have had a huge impact, but negative nonetheless versus achieved power price. But then, in the comparable quarter last year, it was below €20. So then being open would have impacted our result massively if we just look at the spot prices. So that's where the fundamental driver comes from. Then, mostly when we do the bilateral hedging, as we did also in Nasdaq, it is financial hedging. So, then we have still the possibility for the physical optimization.

And then, of course, we have the risk that can we deliver the power at spot delivery, but that we settle, of course, always on a daily basis. But financial hedging with customers and then leaving the optimization. In the longer run, we have said that we want get to 20% rolling 10-year hedge level. So, we assess that we target to stabilize the cash flows also going further and the idea with doing PPA-backed investments if there is need for additional power stems from that when we make investments, whether it's wind or solar or any other. The payback times typically are quite long and then stability has an – has a positive impact on our internal cost of capital and thereby the return requirements.

Batteries or other flexibility connected to the renewable investments, the answer is yes. So that's part of our development. We are typically citing also space for batteries connected with the renewables investment, so that there is a possibility to do it if the financial conditions are there. Historically, we have built some batteries since a long time. Actually when Tiina was heading Generation even, we were doing that, so already many, many years ago. And I believe that batteries will be – of course, they will be a needed part of the system. What we see happening on that front also is that there are new uses coming for the – that are catalyzed by volatility. For example, electrified heating which I mentioned earlier. So heat offtake, heat pumps, electrical boilers, they can utilize very flexibly the low cost or even negatively priced hours. So, the volatility will change also the business opportunities and we are capturing those, as we speak.

Louis Boujard
Analyst, ODDO BHF SCA

Q

Can I maybe a very quick follow-up?

Markus Heikki Erdem Rauramo
President & Chief Executive Officer, Fortum Oyj

A

Sure.

Louis Boujard
Analyst, ODDO BHF SCA

Q

Yeah. Just wondering regarding batteries, do you consider that currently the regulation is supportive enough for you or that they need to change?

Markus Heikki Erdem Rauramo
President & Chief Executive Officer, Fortum Oyj

A

So, of course, there are issues that that need to be considered. For example, on the consumer side, when we have investments behind the meter, of course, then taxation and grid fees and so on. These are of lesser issue. But when we get to two-way communication between customer assets and the market, then these are things that need to be seriously addressed on European level and national level.

Louis Boujard
Analyst, ODDO BHF SCA

Q

Okay. Thank you very much.

Operator: [Operator Instructions] The next question comes from Harrison Williams from Morgan Stanley. Please go ahead.

Harrison Williams
Analyst, Morgan Stanley & Co. International Plc

Q

Hey, good morning. Thanks for taking my questions. Two for me and possibly one clarification. Firstly, on the optimization premium, so appreciated that it's very strong this year with guidance of €10 per megawatt hour. Can you give us what that number would be had you had a normalized nuclear year? Because clearly, that is helped a little bit by the lower nuclear volumes. Just understanding if that's within the €6 to €8 range or kind of above the top end of that.

The second question I had, what was again coming back to PPAs. I mean, I guess, we've not yet seen any of these longer-term PPA contracts being struck. And I try to understand, is this a case of off-takers not being certain on the kind of volume requirements in the five or 10-year period, or is this a mismatch between pricing expectations? Because you say yourself that you have maybe a higher asset debt forward curve than what we can see on our screens and to try to understand where that is volume mismatch or is that a price mismatch?

And then the final clarification, thank you for the color on nuclear volumes this year, can we clarify that next year, you are still expecting a normalized 26-terawatt hour output, or is there anything we should be aware of? Thanks.

Markus Heikki Erdem Rauramo
President & Chief Executive Officer, Fortum Oyj

A

Okay. So, if I take the take the PPA question. And Tiina, if you take again the optimization premium and volume question, so then we start to follow up at that here.

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

A

Yes, we will.

Markus Heikki Erdem Rauramo
President & Chief Executive Officer, Fortum Oyj

A

Okay. So, for the long-term PPAs, so, of course, we have a kind of inherent wish when we do new investments that are volatile and also we have the capture rate issue. So, they would benefit from visibility long-term. Otherwise, historically, we have been hedging in the short-term. So, the drive to do long-term PPAs isn't really coming primarily from our side, but it is how we communicate this based on what we hear from the customers. So, customers are making inquiries on three-year, five-year, seven-year, 10-year and even longer PPAs. There are couple – a couple of points I see there. One is this whole geopolitical situation. So, the customers' investment plans are taking time to materialize. So, our customer pipeline has stayed very stable. Like I said, the outlook from that point of view is robust.

Then, a contradictory point is that if I look at the Nordic traditional heavy industries, they typically would have a wish to get visibility for various inputs. But the order books, whether it is steel or chemicals or pulp and paper, they tend to be rather short. So, we talk about months or a year and then looking in input costs create a basis risk which we all are very familiar with. So even if something would look inherently very affordable, there's still a risk that that your incomes go below your costs and then you have an out-of-the-money contract. So, this is one structural thing that continues to be impacting our customers' ability to do long-term contracts.

But, overall, there is structural demand for power, power availability, and if the format to get that to the customers is the PPAs, then that structurally we're heading that way. We haven't done massive PPAs that we would have announced separately, but if you look at our hedging levels and the volumes, that actually implies that we are doing hundreds of bilateral contracts, also longer-term PPAs, which you can see in the 10-year rolling hedge ratio. So, we are doing also long-term PPAs, but the volumes are not massive. But they are good indication in line with what I said earlier.

And then to the optimization premium and nuclear volume, Tiina.

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

A

All right. Thank you. So when we calculate the optimization premiums, so we take the full volume, as you said. So for the 47 terawatt hours in the normal year. This year has been exceptional. What comes to the nuclear? So, 3.6 terawatt hours more outages would be planned at the beginning of the year and also hydro being somewhat lower, particularly because of this low second quarter.

Of course, what is the final number will depend at what will happen and how we run in the fourth quarter. But if we take roughly to give you an idea, so the optimization premium would have been roughly at the same level as the previous year. So, previous year it was 8.7 terawatt hours, somewhere 8.5 terawatt hours or that range with the normal, normal without particularly the nuclear extensions.

Then what comes to the next year nuclear production, so the normal year, we have indicated is roughly 46 terawatt hours. And all the time, the nuclear producers will put the UMMs with the updated outages. And what we now know is that Loviisa and also Oskarshamn 3, they have a normal cyclical longer outages. So, those are normal and planned and goes according to the schedule, but they are bit taking the production volume lower.

Harrison Williams
Analyst, Morgan Stanley & Co. International Plc

Q

That's very helpful. Thank you.

Operator: The next question comes from Harry Wyburd from BNP Paribas Exane. Please go ahead.

Harry Wyburd
Analyst, Exane BNP Paribas

Q

Hi, Markus and Tiina. Sorry to monopolize and to come back, but I'm sorry to really labor this topic. But it's driven a 10% or nearly 10% move in your shares since this morning. So, it's really important, I think, to get the language sort of understood correctly. So, I think from my question earlier, I interpreted that you said there may have been a positive change in your discussions with data center operators versus what you told us at Q2.

In the subsequent questions, you've kind of mentioned that, you – if you did a big PPA, you'd announce that separately. You're doing – your – you're not really doing big long-term PPA. So, I think really to distill it down, what I think the market is questioning here is, are you poised to sign a big long-term PPA with a sort of big industrial or data center operator?

So just to really clarify what you said, is it plausible that you could sign a significantly sized long-term PPA with a data center operator, and you'll announce it in the next few weeks, or is that something we should interpret from your comments that that is less what you're looking at the moment? Thank you. And sorry for the long question.

Markus Heikki Erdem Rauramo
President & Chief Executive Officer, Fortum Oyj

A

That's absolutely okay. So, like I said, I think the one word, the robust, says it very well. So, when we look at that all the customer segments, there is continuous activity. And with – from our point of view, we see that electrification, decarbonization are driving industries. It will be more efficient. Clean power is actually more affordable than fossil power. The brand promises that companies have made, these are all pushing ahead what we have been preparing for.

So, the underlying activity is at a good level. But then, in all honesty, there's a lot of uncertainty. So, even with this – all these discussions, we don't know what they will materialize into before deals are done. And to not to try to shy away from the question, but to give you a color on how do we address this, is that we see the potential, but we see a lot of uncertainty. And that's why our preparation is that we're spending almost €100 million a year in developing the renewables pipeline, pumped hydro, batteries, even new nuclear as a feasibility study for the future we're developing the sites.

So, we want to create the optionality that that if there is additional demand we can answer that and then we have the efficiency programs, the availability. We improve our processes to be able to serve from our existing portfolio. So, it is not one or two discussions that we are having. It's a big list of customers that we're talking with all the time and preparing for that potential.

Sorry for not being able to be clearer than that, but this is the very kind of honest picture of what is happening. But bottom line is that I'm positive about the whole decarbonization, electrification opportunity, and the Nordics are in an excellent position to answer that. But it seems that the overall sentiment has a lot of uncertainty. So, investment decisions also take time.

Harry Wyburd
Analyst, Exane BNP Paribas

Q

Okay, got it. Thanks very much for taking all the time to answer all the questions. Thank you.

Markus Heikki Erdem Rauramo
President & Chief Executive Officer, Fortum Oyj

A

Thank you.

Operator: There are no more questions at this time, so I hand the conference back to the speakers for any closing comments.

Ingela Ulfves

Vice President-Investor Relations & Financial Communications, Fortum Oyj

Thank you so much. Thanks for all your questions. Very interesting. And also happy to have gone through now the Q3 performance. As there were some technical issues in the beginning, I will just quickly repeat what I said about the Investor Day. So, it was a reminder that we will host the Investor Day on the 25th of November and also then saying that the registration is open until the 17th of November. You're able to attend both in-person in Helsinki. Most welcome to join us in at the event, but then also participate virtually online.

But with this, thank you for your participation and we all wish you a very nice rest of the day.

Markus Heikki Erdem Rauramo

President & Chief Executive Officer, Fortum Oyj

Thank you very much. Have a good day.

Tiina Marjukka Tuomela

Chief Financial Officer, Fortum Oyj

Thank you. Bye-bye.