15-Aug-2025

Fortum Oyj (FOJCY.FI)

Q2 2025 Earnings Call

CORPORATE PARTICIPANTS

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

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

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

OTHER PARTICIPANTS

Harry Wyburd
Analyst, Exane BNP Paribas

Wanda Serwinowska
Analyst, UBS Asset Management (UK) Ltd.

Deepa Venkateswaran
Analyst, Bernstein Autonomous LLP

Ajay Patel
Analyst, Goldman Sachs International

Artem Beletski
Analyst, Skandinaviska Enskilda Banken AB (Finland)

James Brand
Analyst, Deutsche Bank AG

Louis Boujard
Analyst, ODDO BHF SCA

Piotr M. Dzieciolowski
Analyst, Citibank Handlowy SA

Harrison Williams
Analyst, Morgan Stanley & Co. International Plc

Elias Huuhtanen
Reporter, Montel News

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 Half-Year Report, January-June 2025. My name is Ingela Ulfves, and I'm heading the Investor Relations at Fortum. As always, this event is being recorded, and a replay will be available later today on our website.

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 second quarter and first half of this year. After the presentations, we will take your questions in the Q&A session.

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

Markus Heikki Erdem Rauramo

President & Chief Executive Officer, Fortum Oyj

Thank you very much, Ingela, and a warm welcome to our investor and media call also from my side. I will start by going through the key elements of our quarterly highlights and our financial performance, then I will say a couple of words about the hydro situation and the latest update of power demand projections by 2030 . 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 a reminder, in our business, the second and third quarters are typically small quarters result-wise. This also applies to this year. Despite lower power prices, our second quarter achieved power price was almost at last year's level, €48.1 per megawatt-hour compared to €48.6 per megawatt-hour, supported by high hedge ratio and good physical optimization. Realized market prices were 23% lower than in the second quarter last year. In her presentation, Tiina will explain in detail the dynamics of the optimization premium and hedge effect. This year is especially characterized by low volumes, which should be seen as temporary due to hydrology and unavailabilities.

When it comes to hydropower in Q2, generation was record low because inflow during that quarter was low in our generation areas. In addition to the lower hydro generation, we also highlighted, in connection with our Q1 results, that there were and still are unavailabilities in our nuclear generation fleet. This means that total generation was record low and amounted to 8.8 terawatt-hours, which is as much as 2.2 terawatt-hours lower compared to the second quarter last year.

At the end of the quarter, we closed the acquisition in our Consumer Solutions business, in which we bought Orange Energia, a retail business, electricity retail business, in Poland. Through the acquisition, we doubled our amount of retail customers in Poland. As part of the agreement, Fortum will continue to sell electricity and related digital services through Orange Polska's nationwide retail sales distribution network, at least until the end of 2028.

The efficiency improvement program is progressing according to plan and schedule. Fortum targets to reduce its annual fixed costs by €100 million, excluding inflation, gradually until the end of 2025. The full run rate will be

effective from the beginning of 2026. We estimate that the new fixed-cost base in 2026 will be approximately €850 million. This excludes the increase in the Swedish property tax from 2025.

On 23rd of July after the reporting period, we announced the acquisition of a project development portfolio for wind power in Finland, in 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. Our target is to have at least 800 megawatts of ready-to-build projects to serve our customers when demand starts to grow in the Nordics. With the acquired 4.4-gigawatt portfolio, Fortum's pipeline of onshore wind and solar projects in the permitting phase reaches approximately 8 gigawatts with more projects in the early development phase.

Potential investment decisions of these projects will be done case by case. Each project will be linked to a customer PPA and needs to meet our investment criteria. Currently, there is enough power supply in the Nordic area, and we can sell PPAs from our existing outright portfolio.

Our financial position remains strong; also following the dividend payment of €1.3 billion. At the end of the second quarter, our financial net debt was €1.3 billion. Uncertainty in the operating environment has continued due to ongoing geopolitical conflicts and US tariff plans, and may pose challenges to major industrial investments in the Nordics. To support economic growth and long-term investment planning, a steady and reliable regulatory framework is essential. This is relevant, for example, for the taxation of planned data centers. In our view, public intervention should serve to support industrial investments rather than restrict them.

Then over to our main figures and financial KPIs. Here are our familiar comparable headline KPIs for the group's second quarter and for the first half-year 2025. As you see, all KPIs decreased in all periods. This was mainly a consequence of both lower generation volumes and lower power prices. A major part of this negative effect relates to the clearly lower volumes. In Q2, our comparable operating profit totaled €115 million, while EPS amounted to €0.09 per share. On a cumulative basis, the group's comparable operating profit amounted to €577 million. Our comparable EPS was €0.51 per share. The operative cash flow was at a good level. However, decreased to €656 million. And on the balance sheet, our leverage, defined as financial net debt to comparable EBITDA, was at 0.9 times at the end of June. Tiina will go into more details on the result analysis in her part.

Next, a few words about the market environment, especially hydro conditions. The picture on the left-hand side shows the hydro reservoir status for the whole Nordic market area, not only Fortum's reservoirs. As we 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 very 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. There has been quite a lot of unplanned maintenance in our nuclear fleet. Based on announced and planned outages, we now estimate approximately 2.9 terawatt-hours lower nuclear volumes for the full year 2025.

We also mentioned the risk of lower hydro volumes for the full year. Unfortunately, this seems to be the case. You can see that, for the last 12 months, hydro volumes have been 18.3 terawatt-hours. Our normal-year hydro output is somewhere between 20 and 20.5 terawatt-hours. It is not possible to give any estimate for the full year as hydro conditions might change, but the assumption is that our annual hydro volume will be below that of a normal hydro year.

Just to highlight how hydro volumes can fluctuate, our lowest hydro output year was with 18.1 terawatt-hours in 2013, and the highest output here was 25.2 terawatt-hours in 2012. On a positive note again, the continued high volatility in the Nordic spot price supports our capability to generate a premium through optimization.

In June, the Nordic transmission system operators, or TSOs , updated their projections for power demand in the Nordics. According to the update, power demand is expected to grow to 550 terawatt-hours per annum by 2030. The estimate decreased slightly from earlier and shows a postponement in expected demand for hydrogen production but, at the same time, it shows increased demand by 2030 from data centers and other sectors.

At Fortum, we continue to see robust underlying customer demand from our customers in various industrial sectors, which we believe reflects power demand growth longer term. Despite this, we have not signed any significant new long-term power purchase agreements recently. Our customers continue to focus more on short- and mid-term contracts over the next three to five years.

This concludes my part, and I would now like to hand over to Tiina to tell more about 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 second quarter amounted to €115 million. In the second quarter, both the comparable net profit and comparable EPS decreased. This is reflecting the lower result in the Generation segment. At the same time, we are very satisfied that our Consumer Solutions business generated a record-high second quarter result. Our comparable net profit for the quarter declined to €87 million. Consequently, our comparable EPS for the second quarter declined to €0.09 compared to €0.20 per share last year. Comparable EPS for the last 12 months is now at €0.83. Our cash flow during the quarter declined by €135 million and totaled €203 million for the second quarter. Our cash flow was strong while leverage increased due to the dividend payment in the second quarter.

Let's move over to the income statement to look at certain items in more detail. In the income statement, it's pretty straightforward, starting with our efficiency improvement program. In 2024, our fixed cost showed a small decrease, and that trend have now continued in the first half of the 2025. In the second quarter, fixed costs were €209 million. We have earlier communicated that the 2026 fixed-cost base will be €850 million. This exclude the increase of €30 million in the Swedish property tax. It is good to keep in mind that we have actions in place to develop our business and prepare for future growth, which increases our development cost, and this means that the fixed cost will still increase during this year.

When looking at the associated company result and financial items, there were some one-off type items mainly related to the nuclear cost updates and adjustments, which we have reported in detail in our notes in the report. The comparable effective income tax rate was within the guided range at 19.2% in the first half year.

Then over to the segment result for comparable operating profit. Compared to the previous year, the result in our Generation segment decreased, while both Consumer Solutions and Other Operations segment improved. In the Generation segment, comparable operating profit decreased by €143 million to €121 million, mainly due to the lower hydro and nuclear volumes, lower hedge power prices, and somewhat higher property taxes in the nuclear and hydro in Sweden. In the comparison period, the result of the renewable business was positively impacted by a sales gain of €16 million from the divestment of Fortum remaining share in the Indian solar power portfolio. The

result contribution of the Pjelax wind farm was slightly negative. The result of the district heating business is decreased, mainly due to the lower sales price for power in Poland.

The second quarter shows good performance in our Consumer Solutions business. The comparable operating profit reached an all-time-high second-quarter level of €26 million. This is an increase of €14 million, which mainly relates to improved gas margin in the enterprise customers business in Poland, improved electricity margins in the Nordics, and approximately €5 million cost synergies from the completed brand mergers, including Telge Energi. We are especially satisfied that we now see the impact of cost synergies from the brand mergers from the bolt-on acquisitions that we have done. The total estimated cost synergies for this year are €13 million.

In the Other Operations segment, comparable operating profit improved by €11 million, showing a negative result of €32 million. The main reason for the improvement was the divestment finalized in 2024 in the Circular Solutions business.

Next, I would like to highlight a few things about our value creation in our Generation fleet. Let's look at the composition of our achieved power price. Please note that this is an illustrative picture. When breaking down our achieved power price for outright portfolio in our Generation business in a smaller component, we basically have three elements. The first pillar is our area-weighted realized market price or what we refer to as our blended price. The price area mix in our generation fleet is 46% in Finland, 37% in Sweden Price Area 3, and 17% in Price Area 2. This can vary depending on the market conditions and availabilities. For the second quarter, the blended market price was €26.4 per megawatt-hour compared to €34.3 per megawatt-hour in the second quarter last year.

The second element in the optimization premium, which you add on top of the market price, it is important to note that the optimization premium applies to 100% or total volume of our generation irrespective of the hedge ratio. And another point, which is good to note, is that the optimization premium is for the physical generation while hedges are financial. In 2024, the premium was €8.7 per megawatt-hour and, for this year, we have guided it to be in the range of €7 to €9 per megawatt-hour.

And the third component is the hedge effect. As said, hedging is financial hedging. So, hedges are settled with money, not with physical delivery. Open hedge positions are not bought or delivered physically. If needed, we always have a opportunity to open new or close existing position. As we closely monitor and manage our hedge position, the risk of big financial losses is rather theoretical also in the situations with the high hedge ratios. As we disclosed in the interim report, the hedge ratio in the second quarter was high because of the low hydro and nuclear generation volumes. At the end of the Q1, we reported a hedge ratio of 75% at €40 per megawatt-hour for the rest of the year. This indicates that the hedge price in Q2 was clearly higher than the blended market price of €26.4 per megawatt-hour. Consequently, the hedge effect was positive for the quarter.

Then let's have a closer look at how we create value in hedging and optimization premium on top of the market prices. This picture shows how much we have created value above market price. The created value includes both optimization premium and effect from hedging. In the first quarter of 2024, the market price was €63 per megawatt-hour. In that quarter, we generated only €1 additional value. Then, again, when you look at the last five years, the average market price was €33 per megawatt-hour, and we generated an additional €18 per megawatt-hour on average. Similarly, the value creation in the third quarter of 2024 was €24 per megawatt-hour. In the second quarter of 2025, it was €22 per megawatt-hour. This is good to keep in mind when looking at achieved power prices going forward. This confirms both that the value creation happens, especially with the low market prices, and it also shows that a higher hedge ratio is not necessary a negative thing.

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

In the Generation segment, comparable operating profit decreased clearly by €221 million to €556 million, impacted mainly by lower hydro and nuclear volumes, lower spot and hedge power prices, and somewhat higher property taxes in nuclear and hydro in Sweden. The negative effect from the price and volume components was partly offset by high hedge ratios in the second quarter and good physical optimization. The result contribution of the Pjelax wind farm was positive but lower than in the comparison period due to the lower power prices. In the comparison period, the result of the renewable business was positively impacted by a sale gain of €16 million from the divestment of Fortum's remaining share in the India solar power portfolio. The result of the district heating business improved mainly due to the lower fuel and CO2 cost, as well as higher heat price and volume, partially offset by lower sales price for power.

The cumulative result for our Consumer Solutions business comparable operating profit increased by €19 million and was €73 million for the first half of this year. The main reason for the improvement are improved gas margin in the enterprise customer business in Poland and approximately €11 million cost synergies from the completed brand mergers, including Telge Energi.

In the Other Operations segment, comparable operating profit improved by €16 million and amounted to minus €52 million, mainly due to the divestment finalized in 2024 in the Circular Solutions business.

Then over to the leverage and liquidity. Our financing position continues to be strong, primary 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. When considering our capital allocation principles, we balance between leverage, investments, and dividends while always keeping the credit rating in mind. In June 2025, Fitch upgraded its long-term credit rating from the previous rating of BBB with stable outlook. 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 second quarter. At the end of the first quarter, our financial net debt was €13 million. In the second quarter, the operating cash flow was €203 million, and investment amounted to €162 million. As mentioned several times already, the dividend of €1,256 million was paid in the second quarter. The change in interest-bearing receivables amounted to €8 million, while FX and other effects were €35 million. So, at the end of the second quarter, our financial net debt was €1,270 million, and the leverage ratio for financial net debt to comparable EBITDA was at 0.9 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 to €4.6 billion. Bonds are and continue to be our primary source of funding. Our maturity profile is very balanced, and there are no large maturities any single year, and the next maturing bond is €750 million in 2026. At the same time, our liquidity position is strong. We have ample liquidity reserve, €7.1 billion with €3.2 billion of liquid funds and €3.9 billion of undrawn committed credit facilities and overdrafts. The cost of our €4.6 billion loan portfolio is 3.3%, while the interest income that we get for our €3.2 billion liquid funds has come further down and is now 2.2%. With the strong liquidity position, we will 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 sections, the outlook. The outlook section comprises four familiar elements: guidance for outright portfolio, taxes, CapEx guidance, and our fixed-cost reduction program. First, a reminder that, while our normal annual outright volume is approximately 47 terawatt-hours, because of announced unavailabilities in nuclear and lower expected hydro output, we will fall clearly behind the normal historical output level this year. Based on announced outages, nuclear output for 2025 is now estimated to be 2.9 terawatt-hours lower this year, of which 1.3 terawatt-hours realized in the first half of 2025. Of the expected in the second half of the year, the majority is estimated to materialize in the third quarter. And just note that our last 12-month hydro output is 18.3 terawatt-hours compared to the normal level of 20 to 20.5 terawatt-hours.

About the hedges, at the end of the second quarter, the hedge price for the rest of 2025 was €41, and hedge ratio was 80%. The hedge price for 2026 is €40, €1 lower compared to the last time disclosed while the hedge ratio increased by 10 percentage points to 60%. Our annual optimization premium for this year is estimated to be between €7 to €9 per megawatt-hour. Good to note, however, that there usually are quarterly variation, as you know, from the past.

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 the Swedish 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. A major part of this cost increase will be recorded in our fixed cost.

Our capital expenditure remains unchanged. Capital expenditure for the years 2025 to 2027 is expected to be €1.4 billion. This includes maintenance but excludes potential acquisitions.

Finally, a few words on our fixed-cost reduction program. As you saw, our first quarter 2025 fixed cost were €200 million; and second quarter, €210 million. We aim to reduce our recurring annual fixed-cost base by €100 million, excluding inflation, gradually until the end of 2025 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 €850 million, excluding the increase in Swedish property tax. As mentioned before, there are additional cost for growth in 2025. These are related to, for example, renewables development, site development, buildup of the 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, both Tiina and Markus, and I hope that we have been able to provide some more clarity on the quarterly results. We're now ready to take your questions. So, let's begin the Q&A session, and you are also able to ask questions in Finnish if you so wish. Moderator, please go ahead.

QUESTION AND ANSWER SECTION

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

Harry Wyburd
Analyst, Exane BNP Paribas

Q

Hello. Hi. Good morning, everyone, and two questions from me, please. So, particularly, can you just try and help me pin down full-year volumes for hydro and nuclear? So, if we look at nuclear, I think, if I remember correctly, you usually do about 26 terawatt-hours a year. So, when you say 2.9 terawatt-hour level for the year, should we be thinking of about 23 terawatt-hours for the full year for nuclear? And then, on hydro, it's noted that it's very hard for you to forecast the full year, and I think you're 2 terawatt-hours lower than last 12 months, so than usual range. Your range is 20 to 20.5 terawatt-hours. So, would 18 terawatt-hours be a reasonable estimate if you had P50 volumes or given the outlook for the rest of the year? So, that's the first one.

And second one is actually on Russia. I think we've got a bit inured to Russia and Ukraine and so on. But obviously you've got the Alaska summit imminently. Where are we with the legal claims on the Russian business, and do you think there could be any sort of improvement on the outlook there if we get a good result from the Alaska summit? Thank you.

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

A

Okay. Thank you . Maybe I'll start with Russia and comment on the hydro reservoirs, and if you, Tiina, take the nuclear volume question.

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

A

Yes, happy to. Sure.

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

A

So, no major news on the legal front with regards to the Russia claims. We have the arbitration against the Russian Federation concerning our equity ownership. And then we have the legal process against our own company with regards to the unpaid loans. So, we are proceeding with both of those. Then if we could, we would sell the business also. So, basically, we're looking forward to that there would be some relaxation of currency control being able to for the company to transmit money to us so they could pay the loans. We could recover that and the ownership and potentially sell it. We'll proceed with all of these fronts. The thing we have said earlier is also that, if we get control of the business, we will not continue our business in Russia. So, then we will exit it one way or the other.

Then for the volumes, Tiina can talk more about the exact details, but what I'm focused on myself is, of course, that there has to be availability. This kind of level of unavailability is not what we are targeting that you can tell from our strategic targets. That goes for the nuclear. And then for the hydro, like I said in my part, if you look carefully at the hydro reservoir level, reservoirs were very high in the beginning of the year, putting pressure on

the prices. Now we are practically at the neutral level. So, then the rest of the year can go any direction. So, maybe the – like, if you compare to historical outcomes, the distribution is now neutral both ways.

And, Tiina, on the nuclear?

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj
A

Yes. Thank you very much. So, maybe, first of all, it's very important to underline that this has been very exceptional quarter. So, the volumes in hydro, so they were lowest ever. And also, in nuclear, unfortunately, we had many, many, many outages. So, naturally, what we also indicate that that will have a impact for the yearly level for this year. I'm not saying going to the future, but, this year, we'll be impacted. So, nuclear volume, so the average usually is around 26 terawatt-hours, and what we have said that current based on the UMMs, what we have in the market, so the reduction is 2.9 terawatt-hours where the 1.3 terawatt-hours already has happened, and then the 1.6 terawatt-hours mostly will impact the third quarter. So, there will be some reduction, as indicated.

What comes to the hydro volume, so the record-low second quarter. So, based on our current estimates, so it's very difficult to catch up fully that decrease during the year. So, our normal 20 to 25 terawatt-hours, difficult to reach because of the lower volumes. But, of course, we know hydrology can change, as Markus indicated. So, we need to live with that.

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

20 to 20.5 terawatt-hours.

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj
A

20 to 20.5 terawatt-hours, yes.

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

Sure.

Harry Wyburd
Analyst, Exane BNP Paribas
Q

Okay. Thank you. Okay. But – so, it sounds like you lost a couple of terawatt-hours in the first half, and no more second half. Would be sort of following those 10 terawatt- hours-ish. So, okay, I'll go with sort of 18 – maybe 18, 19 terawatt-hours in my head. I mean, shout if you think that's – if that's right at the mark?

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

One thing I will note here, of course, one has to estimate what do you think for the rest of the year. Hydrology is difficult to forecast, but the unavailabilities and the record-low numbers, these are exceptional and temporary from our point of view. So, nothing is indicating that we would not have a normal year, of course, making normal hydrological assumptions next year.

Harry Wyburd
Analyst, Exane BNP Paribas

Q

Yeah, I clearly got it. So, yeah, no impact 2026. Okay. Thank you very much.

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

Wanda Serwinowska
Analyst, UBS Asset Management (UK) Ltd.

Q

Hi. Wanda Serwinowska from UBS. Two questions from me. The first one is on the data centers – the data center tax in Finland. So, when do you expect a decision or a clarification on that one? I must say, Markus, I missed your remarks at the beginning. And if it's implemented, what do you expect as an impact on the data center growth in Finland? And because you also develop sites, is it a topic that comes out in your discussion on the PPA or other sites? So, that's question number two – one.

Question number two is on your onshore wind EBIT. I was very surprised that it was negative in Q2. So, can you please explain why is that, and can you please remind us what the support price you have, and what is the mechanism that you have in place for this onshore wind park?

And maybe just a very quick follow-up on Harry's question, I do understand hydro is difficult to model, but what have you seen in July and August so far on the volume generation? Thanks a lot.

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

A

Very good. Maybe I'll leave the onshore wind and the hydro question for Tiina, and I'll comment on the data center tax. So, the proposal from the Minister of Finance came as a normal part of her work to say that where could tax revenues be collected. And as far as we understand, now that is going through the like on – full government review on all the proposals that are on the table. The government also set up a working group headed by Veli-Matti Mattila, who used to head Elisa Corporation for a very long time, to just to assess what are the benefits and impacts of data center economy for Finland.

I would say that the tax is more of a detail in the big picture. So, having any kind of uncertainty is not a positive. But if you look at what are the data center operators looking for when we talk with them very tightly is that they need sites, they need grid, they need infrastructure, good competencies, and clean energy. So, this is a little detail. If you look at the total cost of investing in a data center, electricity and the tax is a small fraction, but is it a positive thing? No. So, that's a detail that, of course, also the data center hyperscalers are asking from us that – what's going to come out of this?

But, really, the major thing is that we can provide when we do the site development, we can provide ready sites, we can provide grid access right away, all the way up to 1.3 gigawatts. We can provide large amounts of existing power and new power. So, these are really the big-ticket items. And then the tax is a detail. We would wish that there would be a certainty and that there would not be tax changes, and this we communicated also in the report.

And Tiina?

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

A

Yes. And going back to the onshore wind, so there, our major power plant, the Pjelax. So, in the second quarter, the result was slightly negative, but it is good to underline that, cumulatively, it's still positive. I think that second quarter, the low spot prices impacted the results. So, a majority of the project is hedged with a PPA, but non-hedged part, so the price was lower. And what we have learned that, during – when it's very, very windy, so also the capture rate, so what is the average spot price? So, the wind even gets the lower price. So, this was the lower price impact of the non-hedged part, which make the result negative.

Then I think there was a question about the – what we have seen in July and August with the hydro reservoirs and the hydro situation. So, the reservoir levels, they were close to normal at the end of second quarter. So, 5 terawatt-hours above the normal in the Nordic level in August. So, they decreased to 2 terawatt-hours. So, I would say fairly normal kind of profile and the situation so far from the end of second quarter.

Wanda Serwinowska
Analyst, UBS Asset Management (UK) Ltd.

Q

Thank you, Tiina. If I just may follow up because I still don't understand how onshore wind power can be negative if you secured part of – majority of your output with PPA, and only the merchant, I mean, capture rate, it's low, but it's – was still above €1 – I mean, €0 per megawatt-hour. How come this asset is EBIT-negative?

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

A

I think the capture rate, I think, in June, was even below 50%. So, it was a extreme. So, maybe there was a lot of wind in June, which make the prices for wind even lower, but this is temporary.

Wanda Serwinowska
Analyst, UBS Asset Management (UK) Ltd.

Q

Okay. Thanks a lot.

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

A

Then we get to the to the other temp cost and so on. So, indeed, very low capture rates and very low prices for those capture rates.

Wanda Serwinowska
Analyst, UBS Asset Management (UK) Ltd.

Q

Okay. Brilliant. Thanks a lot.

Operator: The next question comes from Deepa Venkateswaran from Bernstein. Please go ahead.

Deepa Venkateswaran
Analyst, Bernstein Autonomous LLP

Q

Thank you. I had two questions. So, I think on the spot prices in the second quarter, obviously, hydro was lower, but also you had so many outages. Despite that, why was the spot price so weak even if I look regionally within Finland? Because, in the past, whenever you had low volumes, usually, spot prices are higher than the overheads. So, could you point out towards anything unusual? You mentioned wind, but was demand also particularly weak, and how do we square the circle with low volumes and low prices?

And second question is the – in Fingrid's kind of first-half reporting the – they have talked about almost 35 gigawatts of data centers having applied for grid connections in Finland. In your view, how realistic – what proportion of this realistically could translate into real data centers, and when do you see the power demand of this kind of coming in from your experience? Thank you.

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

A

Yeah. Maybe I'll take the Fingrid point and the data centers, and you can, Tiina, take the spot price realization. So, the way we triangulate the information is that we look at the TSOs' – Fingrid, SvK, Statnett – information, and their revised forecast is saying 400 terawatt-hours up to 550 terawatt-hours. So, from that, we can back-calculate that there will not be 35 gigawatts of data centers, obviously. So, that they're referring then to a gross amount of what are the applications they get and with regards to their methodologies. So, when they get this gross number, then they do a haircut and, actually, a massive haircut on what they then put in their forecast, but the gross amount is based on the connection inquiries they are getting.

So, then we look at the TSO forecast, and we look at our own customer pipeline. So, customer by customer, when are they indicating that they would make investment decisions and when would these investments start to consume energy? So, that resonates well. I'm not saying it's exactly the same as their 550 terawatt-hours, but that resonates well with what we see from the different customer segments.

Then for the data – coming back to the data centers. So, when we are talking with the data centers, what they need, like I said before, is sites. So, land availability, grids and clean power. And the beauty with Fortum, with Finland, and with the Nordics is that we have been developing and permitting sites that, actually, you can locate right away, and there is grid connection all the way up to 1.3 gigawatts. And we have – if you go, let's say, five years forward, we have a largely unhedged portfolio. So, we can sell massive amounts of energy to the data centers. So, we are very attractive from that point of view. But then it's normal sales work which we are doing, but I'm positive of the – very positive of the characteristics of Finland and the Nordics as a place to locate data centers. We have the cleanest and cheapest energy in Europe, land availability and grid availability. So, really, a fantastic platform.

And Tiina?

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

A

Yes. Then going to the spot price in second quarter. So, if we look at the spot price in our areas, so the blended spot price was €26.4 per megawatt-hour. And if we look at the different areas, so the price really varied. It varied from €10 to over €30 per megawatt-hour. The lowest prices were in Sweden Price Area 2. So, they were €10.5 per megawatt-hour, so really low, and that reflects the – still the hydro situation. So, the reservoirs were very high. They decreased during the quarter but very, very high, and then, of course, the wind. Whereas the Sweden Price Area 3, the price was €31.6 per megawatt-hour, and that's quite a bit higher than compared to the northern part. And I think, there, the Oskarshamn 3 outage will show the tightness tightened in this price area. And Finland, €28 per megawatt-hour, so lower than the Price Area 3. So, outages and then the hydro and grid installation, and also, of course, summer wind usually, it is a bit warmer.

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

A

I'll still come back to – I didn't comment on the point that when would the demand come. So, this, of course, are long projects, and we started the site development in the capital region for the sites that then became Microsoft sites in Espoo, Kirkkonummi, and Vihti. It's been from initiation of our work all the way up to the data centers starting to operate. It's many years. So, now Microsoft has done the groundbreaking on these sites. So, we are expecting that we will then get this. We'll start operating in 2027, and then we will start to get the – also the heat, excess heat from these plants.

Our own electric boilers , air-to-water heat pumps, water-to-water heat pumps, these will be operational already for the next heating season. So, we are ready then to connect these plants to our district heating system, and then the data center excess heat will come later on. But as we see now, like recent announcements of a new data center in Lahti. So, it will be several years before that would be up and running. Google announced massive land acquisitions, a few thousand hectares in Kajaani and Muhos; also several years' lead time to then get to production. But the potential, like you referred to, it's very big.

Deepa Venkateswaran
Analyst, Bernstein Autonomous LLP

Q

Okay. So, is five years a reasonable expectation, in general, from your – and, obviously, there's a lot of urgency for the technology companies to get ahead or shorter?

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

A

Yeah. That very much depends on the land and grid availability, okay? And, again, the strength that we have is that we can cut the lead time from the site development and grid access. So, it is years. In any case, it could be longer than five years if you start from scratch, but our point is exactly to speed that up and make it only a few years.

Deepa Venkateswaran
Analyst, Bernstein Autonomous LLP

Q

Thank you.

Operator: The next question comes from Ajay Patel from Fortum. Please go ahead.

Ajay Patel
Analyst, Goldman Sachs International

Q

Good morning. It's Ajay Patel here from Goldman Sachs. Just a couple of questions, please. Firstly, I just want to go back to slide 6 where you talk about – talk to power demand and the potential for a strong growth, as you highlighted the TSO report. Could you talk to the scale of grid investment that is going to be needed to cater to that demand, and to what degree that could be a bottleneck?

And then the second question I had was around the renewable pipeline I think you're developing. I think you mentioned 8 gigawatts. Under what type of timeframe could you start to see fruit from this pipeline and, therefore, CapEx attached to them?

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

A

Okay. So, I can take the TSO part, if you want to talk to the renewable pipeline. So, the way – when we discussed with Fingrid how they plan their grid expansion is that they take this – the gross number, which is much, much bigger than what you see actually on the page 6. So, it's multiple times bigger. But when they are planning their grid investments, they take this whole gross pipeline, and that's certain probabilities, and then make their own investment plans.

If you would just – without any planning, you would start to look at where is land available without consideration for the grid, then I would say, yes, grids would be a serious bottleneck. In our case, when we develop sites, we actually listen to our customers, be it steel, chemicals, data centers, battery factories, look at what type of sites they need. Is it then grid infrastructure, fiber, ports, railroads and so on, and go to places where grid is already available or the connection line that you have to build for distribution of transmission scale, that these are something that you can manage very quickly. So, for this 550-terawatt-hour expansion, in a Finnish case, I don't see that it would have been highlighted that grids as such would be the bottleneck. As long as the customers kind of – we can identify which customers are going forward, Fingrid can then mirror that with the grid investment. So, it has not come as a bottleneck up to me.

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj
A

Yes. Then about our renewable pipeline of 8 gigawatts, so, as indicated, so this includes many projects, which are in different phases. So, of course, not all the project will end up to the build or even to the ready-to-build phase. I think it is very important that, from this portfolio, we can really pick and concentrate the most competitive site and also reflecting where the customers are having their operations.

One of our internal target is that, by end of 2026, we would have 800 megawatts of ready-to-build renewable project. So, that, in a way, indicates that that's the amount and the possibility. Assuming that there is customer demand, would start to build up. But, of course, this is based on how also demand and the PPA pipeline is going along .

Ajay Patel
Analyst, Goldman Sachs International
Q

Okay. Thank you very much.

Operator: The next question comes from Artem Beletski from SEB. Please go ahead.

Artem Beletski
Analyst, Skandinaviska Enskilda Banken AB (Finland)
Q

Yes. Hi and thank you for taking my questions. So, firstly, I would start with some more operational and [ph] CCS (01:05:38) related topics. So, firstly, when it comes to district heating business within Generation, so you mentioned that the earnings were down year-over-year, and I think last year we have seen quite substantial improvement on this front. So, what is the outlook for full year when it comes to district heating? And, of course, I do acknowledge that – where that is playing a role on how Q4 will pan out there.

Then, secondly, on Consumer Solutions, so you made a record Q2, and the H1 has been quite strong for this business. LTM EBIT is at €96 million. What is, in your view nowadays, this type of normal earnings potential for this segment?

And the last question is just continuing on power demand outlook topic and, indeed, the [ph] appetite needs (01:06:31) from TSOs. So, there's been high-single-digit demand growth, but then, obviously, [indiscernible] (01:06:36). But could you maybe talk about the outlook for next, let's say, three years? Because, in this case, we have [indiscernible] (01:06:45), which would contribute to power consumption, should be basically ongoing and so on. So, how the picture looks like for next two to three years? Should we anticipate this type of, let's say, mid-single-digit growth in terms of power consumption in Nordics? Thank you.

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

A

Thank you. Maybe I'll take the two latter questions, the costs and demand growth, and if you want to comment on the district heating.

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

A

Yes.

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

A

So, on Consumer Solutions, indeed, the business and division have done very good work, both getting internal synergies, improving processes, combining brands, taking out cost, unifying our customer systems, and then getting synergies from the acquisitions that we have done. That is now reflective in the results. We have earlier said that the business would do, under normal circumstances, €80 million to €100 million result. Now, of course, the numbers are pointing to the higher end of that scale. Second and third quarter typically are the lower quarters. So, that applies, of course , for the outlook as well now. We don't give exact guidance, but things are looking positive, and the business is doing very well at the moment.

Then for the demand growth outlook. So, indeed, a little bit reflecting also on the previous questions and the TSO forecasts. So, like I said, we look at all of our incoming customer inquiries, try to calibrate that, okay? When are they – when do we assume that they will make investment decisions, and when will the energy consumption come? And if you think – let's take practical example of Microsoft. So, three sites with sizable consumption. It's going to start in the middle of this period, 2025-2030. So, this will be back-end loaded. And if investments are announced today, typically it turns out two to three years. So, we're talking about 2027, 2028, 2029 when the demand is picking up, but the pipeline is so big that that also gives us the comfort to make the investments into the optionality of growth.

So, this is why we are – why we bought the ABO Energy wind and solar pipeline, why we bought Enersense. We build the optionality so that when the customers are making their tenders for new energy, then we can respond to that. So, this we have calibrated very carefully.

Tiina referred to the question on the 8-gigawatt pipeline. So, when do we make investments, and when does the cash flow start going out? So, we try to match exactly so that we have ready-to-build projects. Let's say, for argument's sake, if we would have a 300-megawatt project, roughly €300 million spend, so that is for wind distributed over two-and-a-half years. For solar, it would be – the CapEx would be lower than that and distributed over about one-and-a-half years. So, that ties together the customer demand a little bit loaded to the back part of the 2025-2030 period and then matching that with new supply.

And Tiina?

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

A

Hello. Then about the district heating business, so second quarter was a bit weaker one, and that was mostly because that the power prices in Poland were also fairly soft. But if we look at the cumulative basis, so the trend, what we started last year is continuing. So, better result. And then the one big driver is the lower fuel and CO2 prices, and also the heat price and the volume being better this year. We do not give any guidance for the full year, but maybe good to remember that the second and third quarter in the heating business is not the big quarters. But then the last quarter, usually, when the winter starts, so, of course, then our products and services are needed.

Artem Beletski
Analyst, Skandinaviska Enskilda Banken AB (Finland)

Q

All right. That's clear. Thank you.

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

James Brand
Analyst, Deutsche Bank AG

Q

Hi. Good morning and thank you for the presentation and for taking my questions. I had a couple of questions. The first is on nuclear. You mentioned that you had many outages in the second quarter and still expecting quite a few in the third quarter. Can you give us any more details in terms of what's causing this? Is this just some just kind of random issues, or is there anything that's more common across the plants? And I think you've had securities at Oskarshamn 3. So, maybe you could give us some more details as to what's been happening there. And do you expect any of these problems to kind of drag into 2026, or you expect them all to be resolved in the second half this year? That's the first question. I guess it's a two-parter.

And then my other question was on demand growth. The forward curve for the Nordics goes out quite far to 2031. Not sure how liquid it is out that far, but it's basically flat whereas if you get anywhere near the demand growth that's forecasted by TSOs, I would imagine the power price would go up quite meaningfully. So, I was wondering whether you could maybe help us rationalize what you think the power market is thinking. I know you don't like to talk too much about power prices, but is the kind of power market sentiment just very skeptical that the demand growth will come through, and that's why power prices are not going up in the forward curve, or is it something? Thank you very much.

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

A

Thanks for the questions. Maybe I'll take a first stab, and if you want to, Tiina, add something.

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

A

Yes.

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

A

What a very good question about the forward market. So, we are – as a backdrop, we are doing now big majority of our hedging bilaterally with customers. So, when we think about, okay, what is really our view on the price, it is

the hedge pricing that we actually communicate that reflects the short-term pricing. Then the liquidity on the exchange is so thin that, okay, you can trade some megawatts or maybe some tens of megawatts, but if you want to do bigger PPAs, then it has to be done bilaterally. And we would have appetite to do longer PPAs, five years, even further.

But then we do start – we think that there will be demand growth, and there will be a scarcity of supply unless there's new supply coming. So, our price indications are upward sloping, and that's why we see also that very little is done in the long end of the curve, say, between 5 and 10 years. So, the sweet spot where we – where our minds meet with the customers is somewhere around the three to five years. So, we do think that there will be more demand, and a new supply will not come on line with today's prices. That is also clear from our point of view. That's the fundament. If you want new additional energy, it will command a higher cost than what the forwards are today.

Then for the nuclear unavailabilities, so I would emphasize that these are temporary. So, there is no trend. There is no pattern. The unavailabilities, of course, are not something we accept. So, we will work to make sure that these don't repeat themselves, but these are one-off cases which are not – it's not a pattern. If I take Oskarshamn 3, long outage, quite a simple problem actually. We're in a – wearing in a pipe, pipe connection. The thing with the nuclear plants, it's that when something unexpected, unplanned happens, then you need to certify the working methods, you need to certify first the equipment and the – where you're working, do the fixing, and then get the radiation authorities to check that. So, in another type of a power plant, this would not take so long.

But the problem was something that should not have happened under normal conditions, but there was a pipe defect that had developed faster than we had anticipated. We have hundreds and thousands of this kind of points. So, this was unusual, and like I said earlier, we do not this to repeat itself. So, when we get to 2026, by and large, it should be a normal nuclear year. Are there – is there anything now heading out to 2026 unusual?

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj
A

Well, I think that, based on the UMMs, so there are some normal – a bit longer outages. So, like our – in Loviisa, so one of the unit will have a bit longer outage, but that's normal pattern. Also, Oskarshamn 3 is – they have a UMM that they have a bit longer, but nothing extraordinary, more kind of the normal cycle of the maintenance.

James Brand
Analyst, Deutsche Bank AG
Q

Great. Thank you very much. That's very helpful and interesting.

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

Thank you.

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. And thank you for taking my question. I would like to go maybe into the auction and the new capacity, new flexible capacity mechanism that is currently under discussion in Finland. Apparently, there is 800 megawatts that could eventually come. There is some discussion on this topic. We see that it could be,

indeed, needed. I would like to know, in your current portfolio and the future developments, what kind of a project and where do you see you could eventually benefit from this potential development going forward? And if you could provide also a bit more detail on such a framework that could be put in place for this flexible capacity mechanism in the country.

Maybe my second question would be more regarding potential evolution of your thinking regarding the market. Until the past few years, we've seen a lot of disposals, and then you have refocusing to your region. You have also put in place a reduction program – plan in terms of efficiency measure, et cetera, that is coming to an end in 2025. Now, we see some development, notably in Poland in the external business. We see also new development into a pipeline, acquiring a pipeline into the renewable over the past few months, and you are coming to an end for the efficiency program. Do you think that, starting next year, you will -being maybe able to be a bit more growth-oriented into your investments and into your potential development because you consider that the future demand growth is now starting to be definitely visible, and you are now clear to start accelerating into this development going forward. Thank you very much.

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

A

Okay. Thank you. Good questions. So, the – first of all, we think that the non-fossil flexibility reserve is something that the market will need. So, with the increased amount of renewables and intermittency, look, from a market adequacy point of view, something in this scale is needed. So, we support the idea. The terms and conditions are not finalized and not known yet. We are preparing various alternatives, but the features are such that we assume that it will have to be something that can be ramped up quickly and that also has duration. So, these are the kind of features that we are using for our planning. Our target is that we can participate in an eventual auction. We're developing for that, but we cannot yet really say that, okay, what exactly would it be? But we are working on different alternatives, both for new investments. Also potentially looking at: can we then modify something to work for that? But the idea is good.

Then for the market development, we will continue the cost focus. So, we are targeting the €100 million cost reduction on a comparable basis run rate reached this – end of this year, and that's going really well. But we will continue our cost scrutiny, but that goes hand-in-hand with the possibility then for the future to be able to supply new capacity for our customers if and when they need it. It will be PPA-backed, but we provide the optionality so that part of our development cost is going there today.

Then, as you correctly highlighted, we have been active on the M&A front in Consumer Solutions in the wind and solar development. Areas that we are interested in are electrified heating, heating and cooling, so our Consumer Solutions, the heating business, the whole transition to electricity and renewables. So, operating renewable assets also are a possibility. On the M&A front, typically, they are high priced. So, that's why we see a few transactions happening there. But, indeed, we are looking for growth regardless of what is happening with the underlying market growth.

Louis Boujard
Analyst, ODDO BHF SCA

Q

Thank you very much.

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

Piotr M. Dzieciolowski
Analyst, Citibank Handlowy SA

Q

Hi. Good morning, everybody. I have two questions. The first question would be on this PPA with data centers customers and your expectations for the futures to evolve. So, when you [indiscernible] (01:21:39) and we have a demand, I mean, how much of a premium you actually see on this three- to five-year view versus the market? Like when the Google or Microsoft or whatever other hyperscaler comes to you and wants to have a deal like this, well, what kind of magnitude of a premium you could get and do – should we expect the volumes to pick up because, previously, I remember, you tried to hedge your portfolio on the long-term basis, and it wasn't that successful in terms of [indiscernible] (01:22:07).

And second question I have from the supply side impact on the pricing, so what is the levelized cost of energy you see for your 8-gigawatt wind pipeline development in Nordics? And is my understanding correct that, basically, there is a price equilibrium in the long run – I mean, the long term for Finland and for the region? Because you have [ph] a indefinite (01:22:29). It's not just you having a large pipeline, but there could be plenty of supply mobilized on the three-year forward basis that would come at – and I wanted to ask you, like what is the price you would really be happy with on this development? Thank you.

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

A

Okay. So, on the data center demand, so I think what we have observed is that when the hyperscalers have entered into PPAs, they are to fulfill their own clean or additionality requirements, and then there is not necessarily even matching in the price area. So, it may be that a hyperscaler buys a PPA from Europe somewhere and says that we generated additional supply. For the data centers, as I referred earlier today, that majority of the investment is into the infrastructure and chips, and very small part goes into the – to the energy. So, if we look at the US there, why PPAs are being done is to support the availability of power. Availability is not the bottleneck here. So, when demand comes, the data centers seem to be still quite okay with – they're ready to take the risk of being open for quite long.

Then to the actual point about the premiums, so when we talk of – when we look at the forward curve and what kind premiums have we had in PPAs or PPA indications, depending on what profile, what characteristic additionality, RFNBO character or so on you want, then it's from low-single-digit to high-single-digit euros on top of the implied forward price. So, it depends very much on what the customer wants. And I come back to my earlier comment that the forward curve is indicative of some megawatts being traded. And if we talk about 100, 200 megawatts, then it's a very tailor-made price. So, it depends on what we can do.

And that gets me to the second point of the LCOE of wind and solar. Nordics are very competitive. So, we have done projects where LCOEs are lower, way lower than today's markets, so competitive. Now, equipment prices are higher, rates are higher and so on. So, LCOEs also have come up, but that we see not very much demand for a pay-as-produced wind and solar.

So, when referring to what price would be needed to create hybrid products with renewables and flexibility and storage, then we talk about significantly higher price than what we see today, even with a very competitive LCOE for wind and solar. But on a European scale, the Nordic and Finnish good projects are the very best that you can find in Europe from an LCOE point of view.

Piotr M. Dzieciolowski
Analyst, Citibank Handlowy SA

Q

Okay. Thank you very much.

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

Harrison Williams
Analyst, Morgan Stanley & Co. International Plc

Q

Hi there. Yes. Thanks for taking my questions. And most have been answered, but then maybe one clarification was to your answer on a previous question on discussions on PPAs. I mean, you say in the report you're having lots in that kind of sweet spot of two to five years. When you look beyond that, is it a case that there isn't demand, or is it that you – there is a disconnect in your pricing and what you will achieve or want to achieve, I guess? And so, the first question.

And then the second one, looking at your slide 11 and the positive hedge effect that you've been reporting, is this because – simply because you've had historically higher prices at which to hedge and so, this should normalize going forward and should be around zero, or is it more structural than that? And maybe you can clarify why it's so much higher in summer months. That would be useful , please. Thanks.

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

A

If you, Tiina, take the hedge effect, but that's relating to the first question also. And so, you could categorize that we have two type of customers. So, ones who have a – basically have a rolling order book, where you reprice your product every three months or six months or annually. Like a lot of the heavy industries today: steel and chemicals and pulp and paper in the Nordics. So, order books are not very long and price resets. So, then even if you would have a long-term view, that something is a good price to fix, you typically don't because you create the base as risk.

So, this is something that, for many industries, it's just not feasible for them. It doesn't make sense to do long-term contracts because they need to worry about that, or they need to look at their margin. So, where the long-term hedges are relevant is, if you take large, new steel, new aluminium or other businesses where the business is based on that our customer does long-term contracts with their customers, you do 5- or 10-year contracts on steel supply or clean steel and so on. Then they have a big interest to do also long-term hedges. So, that's one segment.

The other one is the, indeed, sectors which want to secure that they get the power. And, for example, for data centers, this is a relevant question. We have seen that big time in the US, where the availability is the issue. So, these are the type of characteristics that we see data demand is there. It's going to grow. Availability is the key thing. You don't want your data center to stop under any circumstances.

Tiina?

Tiina Marjukka Tuomela
Chief Financial Officer, Fortum Oyj

A

All right. Yes. Then to the positive hedge effect. So, basically, I think we mentioned that our achieved power price was €48.1 per megawatt-hour compared to the market blended spot price of €26.4 per megawatt-hour, and there was two main reasons why we achieved so high achieved power price. And the first one is the hedge effect. So, our hedge price, what we have indicated last quarter that, for the rest of the year, it was €40 per megawatt-hour. So, clearly, not telling the exact profile in that quarter, but giving the indication of the level. So, the hedge price

was high but, more importantly, in the second quarter, when the volumes were low, the hedge ratio was high. So, basically meaning that we get this hedge price for the most of our volumes, and we only sold very minor part to the spot market. So, this increased our price

Then, of course, the second very important element was the optimization premium. There was – even though the prices were low, there was a volatility, and we can see that volatility has remained quite high. So, we're able to optimize our portfolio and do the value creation part there.

Harrison Williams
Analyst, Morgan Stanley & Co. International Plc

Q

Okay. That's helpful. Thanks.

Operator: The next question comes from Elias Huuhtanen from Montel News. Please go ahead.

Elias Huuhtanen
Reporter, Montel News

Q

Hello. Elias Huuhtanen from Montel News. I just wanted to ask about the Swedish government's new financing model for new nuclear. They recently approved a plan to finance up to 5 gigawatts of new nuclear through contracts [ph] for difference (01:30:52). So, I just wanted to ask if Fortum is planning to apply for these subsidies. And, if not, then why? Thank you.

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

A

Yeah. Thank you. So, we think that – when we have been doing the feasibility study for nuclear, so we identified that you need visibility on cash flows, construction time, financing, and then the risk mitigation, for example, in the form of loans. The Swedish government is ticking all of these boxes. We have not put in an application at the moment. We don't either have a place in Sweden where we could start such a project. So, we are part-owner in Oskarshamn, as well as Forsmark, but we are doing the feasibility study on a technical side, looking at long term if there are customer interests and if there is a need for the new supply coming, but this is not acute at the moment.

So, like we said, when we announced the results of our feasibility study, with today's market prices , today's conditions and technology, there isn't today right now a case for new nuclear. So, more work has to be done by all parties to make this happen, and, of course, there needs to be demand for the product. But I think the Swedish direction is correct. So, this is – they have identified the right things.

Elias Huuhtanen
Reporter, Montel News

Q

Okay. Thank you.

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

A

Okay.

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. Thank you, moderator, and thank you, all, for all your very good questions. This was a very good discussion, I think. On behalf of Fortum, we wish you all a very nice rest of the day, and thank you for participating here with us today.

Markus Heikki Erdem Rauramo

President & Chief Executive Officer, Fortum Oyj

Thank you very much, everybody. Have a good day.

Tiina Marjukka Tuomela

Chief Financial Officer, Fortum Oyj

Thank you. Bye-bye.