

## **Transcription**

# **Fortum Q1 / 2021 Interim Report**

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## PRESENTATION

### Ingela Ulfves

Good morning, everyone, and welcome to Fortum webcasted news conference on our first quarter interim results. As always, this event is being recorded, and you will find a replay later on today on our website.

With me here today are our CEO, Markus Rauramo, and our CFO, Bernhard Günther, who will present the Q1 figures and go through the Group performance. After the presentations, we will then open up for the questions from the teleconference. So, without further ado, I hand over to Markus to start. Please go ahead.

### Markus Rauramo

Thank you, and good morning also on my behalf and welcome to our first quarter 2021 results call. I will first go through the highlights and our overall performance this year, and then hand over to Bernhard to walk you through the numbers in more detail.

The start of the year has been very strong for Fortum Group, both financially and operationally, which I'm very happy about, especially the good availability in all of our operations. The performance of all our segments was robust during the three winter months, and we also saw a notable improvement in the market fundamentals across our operating areas. The Nordic hydrology is now closer to normal; EU carbon pricing has appreciated remarkably; and also, in Russia the demand has picked up. But first and foremost, we have moved in a very determined way ahead with our strategy execution. As you may recall, I said in our full-year webcast that I'm convinced that we could do more if we work closer, better, and more effectively together with Uniper. And change, of course, starts with leadership. Both companies have since that made changes in their executive management, and now we have a more diverse and pan-European leadership team determined to push forward the clean energy transition together.

A significant step on our joint path forward was this Monday's announcement on the three strategic 'One Team' cooperation areas that we introduced in December last year. Under the proposed plans, which we are now discussing with the employee representatives, Fortum will lead the operations of both companies' Nordic hydro assets in the future. That would mean that approximately 180 Uniper employees, mainly in Sweden, would transfer to Fortum. Uniper would take the lead in wind and solar business development in Europe, as well as the hydrogen businesses for the two companies. The proposed changes do not imply redundancies of jobs, and all existing locations in the new joint operating models would remain in operation.

The stronger alignment in governance and cooperation within the three focus areas will contribute significantly to the expected synergies that we have communicated before: a positive cash impact to approximately 100 million annually on a consolidated group basis. More than €50 million of these annual benefits are estimated to be achieved by the end of 2023, and the full effect of approximately 100 million would be reached annually in 2025. So, we are well on track with what we promised in December.

In addition to that, I would also like to highlight that we are continuing our transformation, and we have disclosed divestments totalling €1 billion [? 00:04:18]. The strategic reviews of our Polish district heating operations, the 50% stake

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in Stockholm Exergi and Consumer Solutions are still ongoing, and we will update you on this if and when decisions have been made.

Then, moving over to financial performance: looking at the first quarter, all indicators are up, whether it's earnings or cash flow. The winter season had its extremes this time, and we could secure security of supply across the portfolios for our customers, and we showed a strong portfolio optimisation and strong quality in our operations. Both Fortum divisions and Uniper have been delivering above previous years' levels, making this a really strong first quarter. The strong increase in comparable operating profit, with close to €1.2 billion in Q1, was largely attributable to the full consolidation of Uniper as, in Q1 last year, Uniper was still accounted for as an associated company.

The comparable EPS gives a clearer year-on-year picture, as here Uniper was included in both quarters. Comparable EPS is up €0.03 per share, with Uniper contributing €0.51 of that €0.94. But overall, the year-on-year effect is even more pronounced as you recall that, in Q1 2020, Uniper was included in our associated results with two quarters: Q1 2020, but also, Q4 2019. Consequently, it's clear that Uniper delivered another extraordinary first quarter this time. And again, this shows that our Uniper acquisition has been beneficial for Fortum Group. When it comes to operating cash flow, this was up in all segments, now at over 830 million for the Group, bringing also our leverage down to the targeted area of below 2x comparable EBITDA; we are now at 1.9x. Good to remember that dividend is not included in these figures as that was paid last week. One of the building blocks of our earnings stability and earnings picture are the hedging activities, which I will talk about now on this slide.

What you see here is the achieved prices for our existing outright positions, but excluding the achieved prices for the 25-terawatt hours of our subsidiary, Uniper. Fortum's achieved prices in the Nordics are on the way up, and compared to the volatility that we experienced over the last years, again, on a very reasonable level. Spot prices have been coming up substantially lately into a region of above €60 per MW hour as the supply situation is getting more balanced, but we are still in a wettish scenario; reservoir levels above average. Bernhard will elaborate more on this in the divisional section. With regards to Russia, achieved prices have also been up as the market has been increasing, but in euro terms, we see a downward trend as the Russian rouble has weakened.

Then, over to the divisional results in a bit more detail. The overview of comparable operating profits on a divisional level shows, in essence, three things. All segments have been contributing positively year on year, but what is clear here, of course, is that Uniper is the main driver for the increase, based on the highlighted full consolidation in Q1 of this year. Generation and City Solutions show a strong uplift based on higher margins, and the same applies for Consumer Solutions. What is not visible in this picture is that Russia division showed a strong underlying performance, with higher prices and volumes, but the weakness of the Russian rouble, then, is covering the improved performance picture, and we are nearly flat year on year in euro terms in Russia division. But to sum this all up, I'm happy and satisfied with the performance across the Group; all segments improving year on year.

Then, I move over to our strategy execution. One of the key building blocks of our strategy is to transform our operations to carbon neutral, and we are progressing well and ahead of our initial plan. With regards to the coal exit, in April, the Wilhelmshaven 757 megawatt power plant was awarded in the second tender of the German hard-coal tender to exit commercial operation by December of this year, and this is one year earlier than initially planned, following the early closure of the Heyden station at the end of last year. As we have communicated also before, our 900 MW lignite-fired power station Skopow [ph 00:10:09], which is in eastern Germany, will exit that portfolio by October of this year as well.

Our coal exit programme goes hand in hand with our hydrogen activities. As the third largest CO<sub>2</sub>-free power producer in Europe, and a strong gas player, we are one of the few players covering the full-value chain, from green electricity, running

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electrolysers, having the know-how to store and to transport hydrogen, and having the ability to structure off-tech solutions for industrial customers.

Lately, several early-stage hydrogen projects have been initiated with the ambition to establish national hubs for hydrogen across north-western Europe. The most recent examples are the hydrogen hubs in Wilhelmshaven, Rotterdam, and Hamburg. But our focus is also to be actively involved in the debate in regulation and incentivisation of hydrogen projects.

One of our targets is on ESG and climate lobbying. Influencing EU and national policies is important for us in order to achieve our ambitious climate goals. Because of this, we have decided to conduct a comprehensive review of our lobbying activities and practices, particularly in relation to climate policy during this year. As a part of that review, we will also clarify Fortum's lobbying practices and governance. Increasing the transparency of lobbying is an important principle for us. In addition, we will conduct a review concerning the Paris Agreement alignment of lobbying of key, energy-relating industry associations, where Fortum is a member in Europe, Russia, and India.

Also, the regulatory environment within the EU took several positive steps forward in the beginning of this year. Next to the tightening of the 2030 climate targets to a 55% reduction of greenhouse gas emissions and overall climate neutrality by 2025, the first delegated act under the EU sustainable finance taxonomy was adopted. The final version saw a clear improvement regarding hydro power as the criteria are now aligned with the EU Water Framework Directive, making the bulk of Nordic CO<sub>2</sub>-free hydro power eligible under the taxonomy. What does this, then, all mean for Fortum? A few words on taxonomy before I hand over to Bernhard.

On this slide, you can see our understanding of the alignment of Fortum's assets and investments with EU taxonomy. As you can see in this picture, the majority of our earnings and capex are expected to be taxonomy-aligned. This is good news as initial versions of the taxonomy, as I said, were about to exclude not only nuclear, but also hydro power generation, what, in essence, is one of the most sustainable resources we have, built to last for generations to come.

There has been quite a discussion on how to measure the alignment. When it comes to revenue or sales, this is obviously not the right measure for taxonomy alignment. How often would you optimise and de-risk your portfolio in the market does not tell you if you have a clean fleet [ph 00:14:03] or clean investments, and therefore that would be misleading.

To achieve a common language and clear definition of what is sustainable, the EU taxonomy is expected to give clear guidance with a common classification system for sustainable economic activities to facilitate sustainable investments that contribute towards the Paris climate target. Initial versions have been very narrow and biased toward certain emission-free technologies over others, and therefore excluded the majority of Europe's existing carbon-free technologies.

The final version saw a clear improvement regarding hydro power as the criteria, like I said, are now aligned with the EU Water Framework. The EU decided to allocate more time to take decisions regarding nuclear energy and natural gas. Also, a delegated act addressing waste to energy is not final yet. The eligibility of nuclear power and gas will be addressed in a separate, complementary delegated act in the summer. The expert group on the Commission's Joint Research Centre concluded that nuclear power generation does not cause more harm than other forms of power generation, and Fortum expects that the Commission will respect the view of this scientific expert group. The debate is expected not to be on the scientific, but also political.

As for gas, we are glad that the Commission clearly highlighted the important role of natural gas in the energy transition. Flexible gas is needed to ensure the security of supply on the path towards climate neutrality, and we expect this role to be reflected in the upcoming legislation.

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Taxonomy is not only important for new investment, but also for existing capacity with high maintenance investments. It obviously also has a spill-over effect to other policy areas, like R&D, funding, state aid rules, etc., which underline the importance of getting taxonomy right.

When it comes to our capex, the picture is rather clear. More than half of our €3 billion growth capex is envisaged for investment in renewables. Additionally, we are allocating growth capex for hydrogen and clean gas projects. When it comes to maintenance capex, most of our roughly €700 million per annum are invested in taxonomy-aligned generation like our hydro fleet [ph 00:17:04]. Having said this, I would now like to hand over to Bernhard who will cover the financials and the divisional insight. Over to you, Bernhard.

### Bernhard Günther

Yes. Thank you, Markus, and hello from me, as well. Carrying on now with the financials. In Q1, we have made some changes to our reporting to better reflect and present the underlying performance following the full consolidation of Uniper. We introduced a couple of alternative performance measures, i.e. comparable net profit and also comparable EPS. These are aligned with Uniper's adjusted net income. We are from now onwards, presenting both reported and comparable numbers in our interim report to give you a better grip on our underlying performance. Today's overview shows, on the one hand, the classical year-on-year comparison. This is distorted by the Uniper consolidation effect up to the comparable operating profit level. Therefore, on the other hand, as a reference, we also show the 2020 full year figure and accumulated last consecutive four quarters – i.e. last 12 months - to give you another good indication of the earnings level of the combined Group.

Comparable EBITDA was close to €1.5 billion in Q1 2021. As Uniper has been fully consolidated over the last four quarters, we see on an LTM basis now a comparable EBITDA level of nearly €3.4 billion. Comparable operating profit was better than previous year in all our segments, as Markus said, and as Uniper recorded an exceptionally strong Q1 '21, comparable operating profits totalled at €1.17 billion. Comparable EPS for Q1 2020 and 2021 was already explained by Markus; I would only highlight that the last 12-month number for EPS totalled €1.70 per share.

We see also a strong cash flow, as Markus mentioned, of 0.8 billion for the quarter, and the last 12 months, 2.8 billion. And as already mentioned, again, the dividends of 995 million have been paid in Q2 last week, and the Baltic district heating divestment will be concluded in Q2 2021. It was, as you know, signed in March this year.

Financial net debt over comparable EBITDA over the last 12 months was at 1.9x, which currently is below our target level of 2x. So, we are on a good track here.

In Q1 2021, divestments were €146 million. There was Russian solar, a small Nordic Hydro, and the remainder, respectively, the second part of our Sørkjord Nordic wind portfolio. As Markus already said, with this, we have announced divestments of almost 1 billion already this year.

Now, moving on to the various segments, let's first look closer at the performance of Generation.

Comparable operating profit has increased by 14%. The result improvement was also supported by the high-achieved power price of €37.20 per MW hour with successful physical and financial optimisation. The overall system price in the Nordics increased by 173% in this quarter, and for the Fortum relevant price areas, it was +124%. Generation volumes

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improved due to higher hydro volumes. The hydro volumes were actually at the highest level for almost 20 years that we recorded in this quarter.

On the reservoirs, you see at the top of this slide, last winter realised [ph 00:21:41] cold, while the new NordLink cable increased the Nordic export capacity. This led to a generally high hydro power production in the Nordics and also high utilisation of water reservoirs. Nordic water reservoirs, compared to a long-term average, dropped from 20 terawatt hours to 14 terawatt hours during Q1. So, as mentioned, we are still in a bad situation.

Looking at Nordic power prices in the lower part of the slide. When you look at the graph, it is important to distinguish the spot and front-end development from the longer term, i.e. '22, '23, '24 product. The Nordic spot prices, just like coal, gas and carbon, saw a strong recovery during Q1 2021. The Nordic spot price recovery was partly driven by commodities and continental European power prices. The average spot price was at €42.10 per MW hour during the quarter, which is almost three times last year's average price. However, also the Nordic fundamentals like cold winter, low precipitation, below normal in [ph 00:22:50] production, and the new NordLink Interconnector played an important part in the price recovery. Nordic power demand increased approximately 7% compared to Q1 2020. This increase has been substantial both in the spot and forward markets, but clearly less pronounced on forward prices.

I'm now moving on to our Russia segment.

Here, our comparable operating profit increased marginally. The effect of the change in the Russian rouble exchange rate was -€21 million, and we had positive effects from €17 million from the sale of the 160-MW, CSA-backed solar power project to the joint venture with the Russian Direct Investment Fund; higher power prices; and higher heat volumes.

The net effect of the changes to the CSA payments was slightly negative. Three units were entering the four-year period of higher CSA payments, whereas the CSA period ended for two units; that's the Tyumen CHP-1, and the Chelyabinsk CHP-3. And there were also downward corrections to the CSA prices due to lower bond yields.

Fortum has [ph 00:24:51] the largest portfolio of wind and solar power parks and projects of almost 2GW within its renewables joint ventures in Russia. 600 MW of the wind capacity is now operational, 495 MW under construction, and 728 MW under development. In 2020, 550 MW of new wind capacity, including four wind power plants in the Rostov region and two in the Kalmykia region, started operation. Fortum also has 160 MW of solar capacity to be sold [ph 00:25:32], as just mentioned before. A 78 MW [? 00:25:37] capacity is expected to be commissioned in the fourth quarter of '21 and the remaining part in the fourth quarter of 2022. It's good to note that Uniper's Russian operations is reported under the Uniper segment.

Now, moving on to City Solutions.

City Solutions, as you know, had a tough year in 2020 and was affected by both mild weather and low power prices, but also by COVID-19. In Q1 this year, comparable operating profit increased by almost 50%: higher heat sales volumes in all heating areas, higher Norwegian heat prices due to the price link between heat and power prices there, and improved results in their recycling and waste business.

As mentioned, with regards to the sale of the Baltic district heating business, we will book a tax-free capital gain of €240 million in Q2 when we close the transaction. During the quarter, we also commissioned part of the solar capacity in Jaisalmer in the Indian province of Rajasthan. The remaining 100 MW of the total, 250 MW capacity is expected to be commissioned in Q2.

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Moving on now to Consumer Solutions.

Consumer Solutions continues to deliver better results and is showing a double-digit comparable operating profit improvement of +12%. So, our comparable EBITDA result is now improving for the fourteenth consecutive quarter in a row. This improvement was driven by higher margins from power sales and value-added services. The higher margins are a result of active development of our service offering. And as already mentioned earlier, the strategic review of this business is ongoing.

Now on to our largest segment, Uniper.

As a general comment, we can state the obvious. In Uniper's global commodity business, the first quarter was characterised by periods of low temperatures in some of the world regions, including parts of Asia, North America, as well as Europe. These colder temperatures increased demand for gas and power, which enabled Uniper to successfully optimise its international portfolio. This included both energy deliveries to the Asian market and sales of gas and power at higher price levels in parts of the United States.

The European generation business benefited from the solid performance of the fossil fleet: Datteln 4 in full operation; Irsching 4 & 5 being back on the market in Germany, and better availability of [? 00:28:37] 3 in the Netherlands, as well as payments from the UK capacity market. The positive impact was partly offset by intra-year CO2 emission, right-phasing effect [ph 00:28:53] that shifted margins from the first quarter to the fourth quarter of 2021. The nuclear generation business in the Nordics was negatively affected by lower achieved prices. Uniper's Russian business, Unipro, contributed positively to the comparable operating profit of the Uniper segment. Russian power prices were supported by growth in power demand, low hydro volumes, and high exports. However, the result was negatively affected by the CSA period ending for the [? 00:29:30] and [? 00:29:31] power plants and the change in the Russian rouble exchange rate.

Now, moving on to debt and funding.

Here, you will find the changes in our financial net debt and main items of our cash flow during Q1 2021 showing a decrease of some €600 million, mainly related to the strong cash flow, the decrease in net financial debt. Considering our rating, our financial net debt to EBITDA ratio for the last 12 months was 1.9x at the end of Q1 2021, and therefore well in our envisaged range of below 2x. It is good to keep in mind that the dividend of almost 1 billion was paid out in Q2 on the 2nd of May, which is naturally not yet reflected in these Q1 figures.

The bond maturity profile is rather balanced. Regarding our maturity profile, we have a 500 million bond maturing at the end of May this year. Our liquidity position is very good, with liquid funds of approximately €3.6 billion. We have currently €9.9 billion of gross debt, and the average interest rate for the whole loan portfolio is 1.5% at the moment.

So, now moving on to the last slide, that's the outlook.

Our successful hedging has continued with marginal decrease in our achieved hedge prices. Uniper's hedges, as published by them last week, are 85% at €27 for the rest of 2021; 80% at €24 for 2022; and 35% at €21 for 2023.

Regarding capex for 2021, we repeat what we have already communicated; total group capex is estimated to be €1.4 billion, of which maintenance is expected to be 700 million, of which Uniper's share is approximately €400 million. However, there might be some volatility between the years, and we have not provided guidance for normalised maintenance capex going forward.

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Finally, I also want to highlight that bond yields in Russia will have an impact on the CSA payments for the ongoing year as the bond yields have declined during last year. The drop is from 7.6% to 6.3%, and will, accordingly, lower the CSA payments.

With this, I conclude our presentation, and we are now ready to start the Q&A session. [? 00:32:33], back to you.

## **Ingela Ulfves**

Thank you so much, Bernhard, and thank you, Markus, also, for your presentation. So, we open up the Q&A session. Moderator, please go ahead.



## Q&A

### Operator

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

Our first question come from line of Artem Beletski from SEB. Please go ahead. Your line is open.

### Artem Beletski

Yes. Hi, there. Artem from SEB. Thank you for taking my question. Actually, I have three to be asked. So, first, starting with power markets, what is going on right now? In the past, you have been stating that high [? 00:33:15] prices, should depositors [ph 00:33:17] [? 00:33:18]. For Nordic markets, looking at the development this year and also last year [? 00:33:22] prices are now over €50 per tonne. And actually, it seems to be the case that there has been quite limited impact on Nordic price. Could you maybe talk around this topic? Why haven't we seen any bigger impacts? What comes to Nordic markets?

The other question is related to accelerated strategy together with Uniper. Could you maybe talk about potential timeline what comes to identifying further synergies relating to both companies, and maybe where their current targets could be accelerated?

And the last one is more technical [ph 00:34:02] related to Russia and CSA rate per megawatt. There has been some 11% growth in Q1 year over year. Is it a good assumption also for the rest of the year? I know that there has been quite a few moving parts when it comes to this year. Thank you.

### Markus Rauramo

Thank you for the questions, Artem. Maybe I'll take the two first ones, and Bernhard can take the third one.

The CO2 is a very important element in the short run marginal cost of coal and gas condensing, which continues to be the anchor for the pricing in the European system. Then how much that impacts, whether it's coal or gas or CO2, how much that impacts various Nordic or national area prices. That depends on the local demand/supply balance and transmission capacities and/or bottlenecks. So, the connection definitely remains, but it is subject to the market conditions; and this will continue to be the case. There is build-up of renewables in Europe creating out of huge amounts of capacity. So, a lot of very cost-effective capacity will go out. There is build-up of new renewable capacity in the Nordics, but at the same time, also closures of existing capacities.

With regard to the synergy potential, we are indeed now working together tightly with Uniper to identify areas where we could create more value, better and faster and broader than earlier. So we believe there is potential, and in due course, we will communicate what the conclusions from this work would be. Having said that, I'm happy to say that, like we mentioned in the presentation, we communicated regarding the 'One Team' approach is. So, now, we are in discussions with the employee representatives on the proposals how to go forward with 'One Team' approach led by Fortum for Nordic hydro optimisation, and 'One Team' approach for renewables development in Europe led by Uniper, as well as for

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hydrogen. So, we're starting to create the good platform to create value and capture the growth opportunities in these three areas.

Then the third question, I'll leave for Bernhard.

### **Bernhard Günther**

If I understood it correctly, your question was if the Russians here pay a tax [ph 00:36:47] we have observed in Q1 compared to last year can be extrapolated to the full year. Correct?

### **Artem Beletski**

Yes, indeed.

### **Bernhard Günther**

Broadly speaking, yes.

### **Artem Beletski**

OK. Very clear. Thank you for these answers.

### **Operator**

Thank you. Our next question comes from the line of Peter Bisztyga from Bank of America. Please go ahead. Your line is open.

### **Peter Bisztyga**

Good morning. Two questions from me, and really both clarifications on where we are with the bigger picture on Uniper. You've replaced executives, management now with your own people; the supervisory board is controlled by you. I'm a little bit confused why you've been maintaining the position that you're going to wait until 2022 before considering putting in place a domination agreement. I'm not sure I understand what the purpose of that 2022 timing is. I was hoping you could elaborate a little bit as to why that is. And then, just taking you back a couple of years on this, when you first acquired E.ON's 47% stake in Uniper, you very clearly said at the time in investor meetings that that was your number two M&A target, and that your number one target was to acquire 100% of Uniper. I'm wondering if, two years down the line, whether anything has changed on that view, and whether that is still your number one goal here.

## Markus Rauramo

Thank you for the question. With regard to the 2022 timeline, this is what we communicated earlier. We wanted to give you visibility stability into the situation of employees and other stakeholders, and our target is to stay with our commitments which we have made. So, this is an earlier commitment, and we stand behind that.

Having said that, you mentioned the PLTA [ph 00:39:12] are squeezed out, but there is no restriction for us to buy shares actually of Uniper, so we have not committed to not doing that. And as you have seen in previous quarters, we have been increasing our shareholding somewhat.

With regard to the 100% question, I would remain in that position that Uniper is a good investment, and we did earlier make a public tender offer for 100% of the shares; we were ready to do that earlier with the fully-financed bid. And yes, there are synergies and benefits that can be achieved between the two companies, and now Uniper is fully-consolidated and a segment of the Fortum Group and part of the *de facto* [ph 00:40:13] group. Like in many other jointly-owned situations, there may be potential for increasing ownership, but then that is both a commercial and operational question. I would say operationally now we are in a position, in a *de facto* group, - Uniper being a segment - that we can work closely together to create value for both companies. It remains a possibility and it is interesting for us, but it's a commercial question if and when we would increase our ownership.

## Peter Bisztyga

OK. Thanks.

## Operator

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

## James Brand

Hi, good morning. Thanks for the presentation. Two questions from me. The first might be a two-parter. The first is just on the taxonomy rules and some of your comments on that. I was just keen to understand firstly your comments on hydro better. You said the bulk of your hydro assets would be compliant. Maybe you could just tell us what that means. Is that 60% or 80% or 90%? And what are the things we should be considering? Some of the pump storage doesn't comply with the Water Framework Directive; is that the issue? And then, I also noticed that you have nuclear as green, i.e. compliant, but I was under the impression that nuclear and gas still had some uncertainty over how they'd be treated. So, I'm curious why you're including nuclear as green. Is that because you expect it to be ultimately decided to be compliant? That's the first one, a two-parter.

And then, secondly, in terms of the combinations and where you're aligning with Uniper in terms of managing different business streams, I notice that there's no Russian business stream there, although wind could extend, maybe, to Russia. Why is there nothing included on the Russian businesses? Thank you.

## **Markus Rauramo**

With regards to taxonomy, I think the starting point for us is that we are the third-largest CO2-free producer in Europe. And the position we have been advocating for EU is that in order to achieve the EU climate change goals, the EU should not disadvantage any of the CO2-free production firms. This, I think, would be important to maintain and very counter-intuitive if that were not the case, because hydro and nuclear actually play such a big role in today's CO2-free production. The issues around hydro that what would then not be taxonomy-aligned, the discussions are around this weight [ph 00:43:25] biodiversity, bio-top protection [ph 00:43:26] and so on, and then there is detail and interpretation that what is taxonomy-aligned, and what not. We are spending significant amounts of money into doing continuously improvements, which have been done actually from the very beginning, 100 years back, when some of our dams and hydro plants have been constructed. So, we have kept up with regulation all the time. But bulk storage is a very small part of our hydro portfolio; so, that's not the critical bottleneck issue for us.

With regard to nuclear, why we are positive is, I go back to the starting point that if nuclear were not a CO2-free production form is that if that was not taxonomy-aligned, then the taxonomy will have a big problem because then it contradicts, I think, with the EU's targets, and it just does not make sense to me. But like I said, the scientific evaluation of nuclear was that it's not more harmful than other CO2-free production forms. And the safety requirements for the operations and spent fuel handling are very, very tight and well taken care of. So, that's why we do assume that the outcome, then, in the separate workstream will be a nuclear positive.

With regard to Russia, there is Russia and there are other areas of business that we have not yet tackled in the 'One Team' theme approach; we actually tackled three in those, which was very important because there is strong potential in the Nordic hydro and there is massive growth potential in renewables and hydrogen. These were three ones where we identified a lot of value upfront, and now that we have found good ways of working, we can then, like said, broaden, deepen our value-creation activities within the group.

## **James Brand**

Great. Thank you very much.

## **Operator**

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

## **Deepa Venkateswaran**

Thank you, I have three questions. On the taxonomy, just following up from the previous question, would you be able to comment on what your expectation is for gas, and would you expect it to be unconditionally classified as green in the summer?

Second question is on the Nordic power prices. Particularly, you've highlighted that you're expecting Olkiluoto 3 to commission in '22. Would you see that as having the impact on the Finnish premium over the North Pole system price?

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And my third question is, does Uniper also lead the Russian wind and solar activities, or would they be restricted to continental Europe? And would you have any comments on some recent developments in Russia where it seems like for future projects there could be a substantial amount of fines for missing production volumes and local content. So, do you still see Russia as an attractive market for renewable investments? Thank you.

### Markus Rauramo

Thank you for the very efficient and good question. I think in taxonomy and gas, this really boils down to the essence of the challenge we will face with taxonomy. In our thinking, gas plays a very important role in reaching the EU climate targets. If we allow gas to provide flexibility and security of supply with actually little running hours and low absolute emissions, that will enable deeper penetration of renewables into the system. Technically, that must be the case. So, then, the dilemma for EU is how do we formulate the taxonomy around gas, because yes, we need to get out of fossil [ph 00:48:05] gas, but the fossil gas, until synthetic gas becomes competitive, will enable faster decarbonisation of the system. That's the nut to crack. So, my answer is, I don't know if it will be, but we need to find a solution. If gas is completely disadvantaged, then it will be more difficult to get the gas [? 00:48:32] and the flexibility that the system requires.

Olkiluoto 3 impact because, of course, any power unit has to be UMM-ed [ph 00:48:42] in the market. So, the timetable is well-known in the market, and I would assume that the impact of Olkiluoto 3 is seen in the area price forwards today. The market knows that it will come. The market knows exactly what the balance will be.

With regards to the renewable cooperation and the 'One Team' led by Uniper, the Russian wind or Indian solar are not part of that, so it's European renewables. We have a very established operation in Russia, and we have an established operation in India. So, now, the thing is to really get the continental European renewables growth started.

With regards to fines and local content requirements in Russia, yes, addressing the local content requirement was a certain kind of hurdle. And that was one of the reasons why we established a joint venture, and now joint ventures, with [? 00:49:52] RDIF. So, we were able to get critical mass of megawatts to actually incentivise potential technology suppliers to localise their operations in Russia. And this has been achieved.

With regards to fines, both Fortum and Uniper, Unipro, and before that, E.ON, all are very familiar with the Russian CSA system, and the penalties and, I think, the whole CSA set-up is actually an example of a well-functioning tariff system and a system that incentivises the type of capacities to come to market as a government has wanted. And Russia has kept up its promises and contractual commitments in a really, really good way. If you look globally, which countries have really followed through the commitments they made more than ten years ago, Russia has actually delivered on that front. Of course, there are the geopolitical tensions and increased country risks and a weaker Russian rouble, so we understand that and observe that continuously. But operationally, we have done well in Russia, and our team has done really good work in commissioning last year hundreds of megawatts of wind capacity in time and budget and in a very safe way. And the same is continuing this year. So, Russia continues to be an interesting market for us, and we have enormous capabilities there with 15 GW of thermal production and now a two GW renewable pipeline.

### Deepa Venkateswaran

Thank you.

## Operator

Thank you. Our next question comes from the line of Sam Arie from UPS. Please go ahead. Your line is open.

## Sam Arie

Hi, there. Good morning, everybody, and thank you for a very good presentation, a helpful Q&A this morning, very good results, too, of course. I have two questions, one, probably, Markus, you'd describe as an efficient question. The other one is not very efficient, but I want to ask it anyway, or at least try to. My efficient question is on carbon: you spoke about this before, and I know you don't give a carbon price forecast as it were, but can I ask if you expect the carbon pass-through to the Nordic market to increase or decrease or stay the same in the coming year? I know you do a lot of work on this type of thing, and I'm interested what your thinking is there about the pass-through, which has been very low recently, but wondering if you see any reason it might increase. Hopefully, that's my efficient question.

My broader one is on Uniper again. And you've made some helpful comments already, but for me, I think the point here is you've done an amazing job in the last 18 months: you've got the balance sheets the way you want it to be; the dividend is covered and growing; you're making progress on the cooperation and the synergies. So, I think you could argue the status quo looks fine, actually; it certainly doesn't seem like a burning platform. On the other hand, you've got this massive disposal plan, and it looks like you've got probably another 5 billion or so coming in from that, which is way more cash than you need for the capex that you set out at the CMD last year. So, if you don't do something on Uniper, then you're going to have a huge cash pile there, and it's going to be back to where we were five years ago and everybody asking what you're going to do with the money. So, can you just spend a bit more time to talk us through that trade off? Are you happy with the status quo? What are the commercial issues that would tip the balance and make you want to do something sooner on Uniper? Thank you.

## Markus Rauramo

Thank you, first of all, for the congratulations. Like I said in the beginning, we are happy, and I'm actually very happy for all of our employees who have made it possible actually to reach this result. So, it's not only the market that makes it possible, but the equipment has to work. The trading, organisation, global commodities, everything has to work; risk management has to be in place. So, I'm really, really proud of what our people have done: hydro availability, availability of our district heating plant; nuclear availability. Things worked. And that gives the strong platform that makes these results possible. And the discipline that everyone's had, also, in a very difficult year with corona. So, there's been enough disturbance to distract you from all of this. But our 20,000 people managed that.

With regards to carbon price, yes, I do expect that the carbon price will come through to the Nordic market and will impact the Nordic prices. Again, I have to go back, unfortunately, and I apologise for that. I have to go back to the more detailed explanation, which is that whatever area price we have is a function of the local demand/supply conditions, transmission capacity, all of that. And it gets very granular when you start to look on a daily basis, as I quite often do. How are the energy flows going, and what transmission lines are working and what are not? But why I'm positive about that there is a connection. But first of all, we see that transmission capacities are being increased. The 1.4 GW new line from Norway to UK is now in place. There is 2 GW more coming soon, increasing the transmission capacity from the Nordics to 13 GW. And if we continue to have, on the forward curve, a large spread between Nordics and Germany, if it's persistent then it's a good case for building more transmission capacity.

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On the other hand, we're getting closer and closer to the late 2020s, 2030, where we assume that because of technological development, we'll start to see synthetic hydrogen being competitive with the fossil alternative, and this may be a big consumer of electricity. If the assumption is that Nordics have great conditions for renewables and clean energy production, we start to come closer and closer that also there are new types of demand that can be very significant. But we'll see how it goes. I think the connection is there.

Then, with regards to the Uniper question, if we were in that fortunate situation that things work out nicely and we have capital to invest, then we have, together now with Uniper, worked, and are working, to create the platforms where we can deploy capital, renewables growth, growth in clean gas, growth in infrastructure services, getting the teams aligned, and optimising the investment possibilities. The possibility, then, to invest in Uniper shares is one opportunity that Fortum has, and like I said, it's then a question of what are the commercial elements around it, and/or are there structural issues? What else, then, a bigger share of the profits of Uniper would such share acquisitions bring us? Are there governance limitations or others that could be, then, impacted with increased ownership? So, from my point of view, it's an investment opportunity, along with others. And I go back to Fortum history. We have had minority and majority positions in various set-ups for very long periods of time. So, we have the institutional capability to deal with this. Of course, there is extra work and extra governance around having minorities somewhere, but that's something we can deal with. And I really want to find positive ways to work with the whole 20,000 employees in the Group without these governance issues disturbing or worrying someone that, of course, we don't want anything to go wrong on the governance side, either. So, we are conscious of this. It's a trade-off.

### Sam Arie

Very helpful. Thank you, Markus. I couldn't have asked for more, and it is very helpful to understand your thinking on both points.

### Markus Rauramo

Thank you, Sam.

### Operator

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

### Pasi Väisänen

Thanks. This is Pasi from Nordea. I have three issues related to sustainability, and as already highlighted, you have listed hydro power as a taxonomy-aligned asset in your presentation. So, my understanding is that you do not have a piece [ph 01:00:01] pathways around the dams, as already stated in [? 01:00:05] we saw. Are you going actually to make these investments to get the green stamp for your hydro power assets?

And secondly, you have listed offshore wind under the taxonomy-aligned assets. So, are you actually going to invest or to absorb [ph 01:00:21]? Also, regardless, it's actually not included in your strategy.

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And lastly, would it make sense to immediately sell all co-related power plants? Because, as we have seen, that actually is burden your [? 01:00:39] multiples, and coal is giving a negative image on the financial market currently. That is three ones. Thanks.

### Markus Rauramo

With regards to hydro power, we are actually investing in biodiversity [? 01:01:03] improvements into the environmental performance. Large amounts of money every year. And one part of that is that Sweden actually put in place the very large fund which then creates funding up to billions of kroners, which will then fund this investment. So, we're actually doing this so [? 01:01:37] are not missing from our power plants, but there are areas where there are and there are areas where there are not.

This is a continuous dialogue we are having with environmental authorities, with the local societies we operate in, and it's a question of finding the balance and really understanding how much money should be spent. But if the competitiveness, how can we provide the flexibility and base load that the system needs and find the right balance? [? 01:02:08] are not the only way either to have decide the biotopes [? 01:02:14] in the parts of the river that we would talk about. So, we are also breeding hundreds of thousands of fishlings [ph 01:02:23] per year and planting them into the rivers. So, we are doing many things to cover obligations and increase the biodiversity.

With regards to offshore wind, that is not in our plans at the moment, but our understanding is that that would be taxonomy-aligned.

Then, the question: would it make sense to sell all the coal? I would turn this question around and say rather that we have very limited coal left in our portfolio. We have the German coal, which now, largely, actually, is exited already on an accelerated basis. So, we know that Heyden, Wilhelmshaven, Skopow [ph 01:03:20] out. We have [ph 01:03:24], Datteln left after that; so. very little. 2 GW in the UK out in 2025 latest, and then Netherlands will face out in end of 2029. Basically, we covered the whole coal portfolio with that, plus the [ph 01:03:41] decarbonisation of our operations in Espoo [ph 01:03:47]. After that, we would have the Russian operations [? 01:03:50] Berezowskaya and one unit in Chelyabinsk. So, out of our total portfolio, coal has a small role.

I think the more interesting question for us is actually that these coal-fired units, when they are taken out, these sites are actually where the energy flexibility base load and storage will be needed. They are in the centres of the system where industrial activity, societal activity has focused. It has focused around and grown around the places where energies or energy has come to the places where these activities, whichever came first. So, when you take these 700, 800 one MW, one GW units away, you will leave a big void into the energy system. So, for us, that's actually a big opportunity now to use these sites which have grid connections, harbours, roads, railroads, society who can work with industrial activity. We have tightened [ph 01:05:05] that zone for industrial activity already and extremely capable people, really talented people, skilled operators who have operated very expensive and technically-demanding equipment for decades. So, I think we have a unique position with these assets, and that's what we are focusing on now. Plus, then taking care of the transition of our people and societies in a very socially responsible way from the old business to the potential new business.

### Pasi Väisänen

Great. Thanks. That was all from my side.



## Operator

Thank you. Our next question comes from Piotr Dzieciolowski from Citi. Please go ahead. Your line is open.

## Piotr Dzieciolowski

Hi. Good morning, everybody. It's Piotr from Citi. I have two questions, please. First one I'd like to ask you about Uniper because you stressed that it's a good investment for you. But is there anything you don't like in this company, that you would like to change more quicker? We've seen the recent management team change there. So, what are you actually hoping to get done with this new management team?

And secondly, on the potential acquisition of Uniper [ph 01:06:14] shares, how different would the full integration work versus the 'One Team' approach? What kind of extra benefits you could get by buying full Uniper? Would that be only about the cost savings eventually? Or would it be significant amounts? Have you looked at the other scenarios? Thank you.

## Markus Rauramo

I have to repeat what you just said, and I said earlier that we find Uniper to be a good investment. Uniper puts us in the centre of the energy transition. We are now firmly in continental Europe where the big change is happening. We have really strong competencies, a strong presence, long history, great relations with the surrounding society, and fantastic people in the organisation. So, this is a platform we really, really want to build on and utilise. We are in much bigger markets than we were before, and in addition to the continental European present, Uniper gives us the global reach from the Americas to Asia from Russia, to the Middle East in the gas business, which is really exciting because we have to clean up both the electricity and the gas.

So, our business opportunity grew very significantly. So, what we like, the CO2-free portfolio, the dynamic gas portfolio, strong global commodities business, strong performance. Also, on the thermal side, across the business, many, many good things, but I like to get more value add for Uniper and for Fortum, working more closely together, deeper, broader, broaden the activities to create value for everybody. And then, on this platform turn from providing things to the current market. In addition to that, also, have focused growth. So, really execute on the strategy that we communicated in the Capital Markets Day, growing renewables, growing increasingly clean gas, growing the infrastructure and societal services, which we are actually doing at the moment.

On the question what extra benefits could there be? Like I said before, we are now a *de facto* [ph 01:08:57] Group. We fully consolidated Uniper; it's a segment of Fortum Group, and now we are working hand-in-hand together, of course, with the limitations of what the listed companies impose on us. But when we do things that benefit both Uniper and Fortum, and we carefully observe the value creation, I don't see many limitations that we would have in reality. Of course, there are costs of having two listed companies, or actually three, since there is also Unipro, but compared to the potential these are rather small costs in the total picture of things. And then, back to the question of would it make sense to acquire more shares? It's a commercial decision. All of these factors. What additional value creation can you get? What are the costs that you could eliminate from not having several listed entities? These are all part of the equation and evaluation.

## **Piotr Dzieciolowski**

OK. Thank you.

## **Operator**

Thank you. If you do wish to ask a question, please press 01 on your telephone keypad now.

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

## **Iiris Theman**

Hi. Thanks for taking my question. It is regarding new transmission capacity. I'm not sure if this has already been asked, but if I look at the power capacity increase in the Nordics this and next year, the next capacity increase looks to be higher than the annual interconnector capacity increase, and therefore just looking at the capacity increase, it doesn't really support higher Nordic power prices in the short term, perhaps in the long term, as the demand seems to grow. So, the question is how do you think the new interconnector capacity will impact both the Nordic and German prices in the short term? Thanks.

## **Markus Rauramo**

Actually, I have to correct something I said earlier. The Norway UK cable is actually in the end of this year. So, then the interconnection increases to the mentioned 11 GW, and then, further in 2023, I think, to 13 GW. So, this is, of course, not all matching time-wise what capacities are coming online and how the transmission capacities will change. So, the Nordic price picture depends on multiple things: demand/supply balance, hydrology, commodity prices, CO2 prices, coal, gas. Everything. But over time, I think the situation is that it does make sense if a wider gap remains between the Continental and Nordic prices. The case for actually increasing the transmission capacities becomes even stronger. Last, that Europe, in any case, will need balancing power in some form or the other and flexibility. One way to provide that flexibility and base load is through electricity transmission. In the longer term, the question is can the good Nordic conditions be converted to something else that would be even easier to transport, for example, clean gases, and transport them in some form? Gas transport being even more effective and efficient than electricity transport.

## **Operator**

I think I will go to the next question from Wanda Serwinowska from Credit Suisse. Please go ahead. Your line is open.

## **Wanda Serwinowska**

Hi. It's Wanda Serwinowska from Credit Suisse. Just one question to follow up on what you said before on the capital allocation. You said that any further investment in Uniper will compete with renewables and growth in energy infrastructure. So, I just wanted to ask what are you looking at when you decide where you are going to put your money? Is it EBITDA? Because if it is EBITDA, the only benefit from a higher share in Uniper is limited to cost cutting and maybe a bit of synergy,

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but there is a bigger upside on the EPS. So, I'm just trying to understand what you look at, what your priorities are when you decide on the capital allocation. Thank you.

### **Markus Rauramo**

Actually, on that front, we have given very clear guidance in our Capital Markets Day last year, December. We said that in the next five years, our target is to spend around 3 billion in growth capex. And around half of that - 50 to 60% - would go to renewables, and then the rest would go to increasingly clean gas and infrastructure and industrial solutions. And this actually is exactly where we are spending the capex money today. And this year. So, this is roughly the picture from the capital allocation as we have it. Then, of course, at the same time, we are working all the time, be it Uniper, individually, be it Fortum segments, individually, to improve our competitiveness and profitability and efficiency. It is natural to keep up the competitiveness of our business. And if market conditions are good, if we are successful with our efficiency activities, the target there is to, over time, increase our capabilities to invest in growth and in the future.

### **Wanda Serwinowska**

If I may follow up, but how to understand your five-year growth capex programme? I'm just trying to understand how do you compare it to any investment in Uniper? Because there is no immediate upside, or there's a limited upside. But there is quite substantial upside to EPS. So, that's what I'm trying to understand. How do you compare any growth capex to any capex or any investments in Uniper?

### **Markus Rauramo**

The same would apply to other growth investments and Uniper. So, we would look at our total balance sheet, our investment-grade rating. The ability to grow in the growth businesses. So, any increases in Uniper ownership, any changes there, we would have to look at what is the commercial viability and what is the payback for additional acquisitions of Uniper shares. And I think you're right that there are multiple different indicators to look at: EBITDA; comparable operating profit; net profit; EPS; accretion; and then, balance sheet. So, it's an evaluation of a multitude of different factors to look at in this case.

### **Wanda Serwinowska**

Thank you.

### **Operator**

Thank you. We have no more questions from the line. I will hand it back to our speakers.

### **Ingela Ulfves**

Thank you, moderator, and thank you all for your questions. We seem to have one question on the chat, so I'll hand over to Måns Holmberg now to ask that one.

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### Måns Holmberg

Henry Steel from Odey Asset Management has two questions. One with regards to in March, Fortum stated that the customer in merger control clearance from Russian pass [ph 01:17:11] would be expected within a few weeks. And how is it taking so long?

And then, the second question is related to if Fortum would be interested in participating in the renewable segment of Vostok Oil Power Development, and if so, would this be done together with RIDF or Rosneft [ph 01:17:35]?

### Markus Rauramo

Can you repeat the second question? I didn't quite get the beginning.

### Måns Holmberg

The second question is if Fortum would be interested in participating in the renewable segment of Vostok Oil Power Development. And if so, if we would partner up with Rosneft [ph 01:17:48] or RDIF.

### Markus Rauramo

With regard to finalising the FAS approval, with regards to the timeline or the authorities' decision-making process, that I don't have the ability to comment how, how long or why it takes as long as it takes.

With regards to rest development in Russia, overall, we have created a very strong platform in renewables, and we have participated in auctions in previous years with [? 01:18:19], a joint venture, and we have taken further steps with RDIF. With regards to what we would do going forward, we would then come back to case by case if opportunities arise. So, we come back if there's something more to tell on that front.

### Måns Holmberg

Thank you.

### Ingela Ulfves

Thank you so much. So, with this last question, this now concludes our webcast on the result. Thank you, all, for your participation here today and on behalf of Fortum, I wish you, all, a very nice rest of the day. Thank you.

### Markus Rauramo

Thank you.

## **Bernhard Günther**

Bye-bye.