

Transcription

Fortum Q2 2022 / Half-year Financial Report

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Presentation:

Pauliina Vuosio: Good morning, everyone! And welcome to Fortum's Webcast and News conference on our first half results for 2022. My name is Pauliina Vuosio and I'm Head of Executive Communications at Fortum. This event is being recorded, and the replay will be provided on our website later today. Here with me in the studio is our CEO Markus Rauramo and our CFO Bernhard Günther. They will then together present Fortum's first-half 2022 figures and the group's performance. After the presentation, we will open up for Q&A over the teleconference. So, with this, I will now hand over to Markus to start.

Markus Rauramo: Thank you very much, Pauliina. Today I will start with some reflections on our operating environment which has been unprecedented. As the war continues in Ukraine, it has substantial direct and indirect implications on Fortum Group, especially on our subsidiary — Uniper. Uniper has accumulated tens of millions of euros in losses every single day, since Gazprom began to curtail their gas flows in mid-June. I cannot stress enough how severely this has put Uniper's future at risk and impacted also us at Fortum. Last month was marked by intense negotiations aiming to save Uniper and to protect Fortum as a shareholder. And five weeks ago, the German Federal Government, Uniper and Fortum agreed on a stabilisation package for Uniper that addresses Uniper's losses. I will later run you through what has been agreed. At the same time, we see commodity prices on record heights, also in the Nordics, consuming an unhealthy amount of liquidity in this volatile market environment. This is the way the markets are designed, but the development is a concern to energy-intensive industries, households and also to utilities. Given the nature of our low-cost low-carbon generation portfolio, a high and volatile environment presents significant benefits as well as challenges to Fortum. But we need to think about the market more broadly, as well as our own interests. I will address the need for both immediate and long-term solutions to the issue momentarily. I will close with our agenda going forward, with the ambition to bring Fortum group to stable footing. Bernhard will then walk you through the numbers in more detail. But let me now start with the look at the operating environment. As Fortum, we find ourselves at the centre of unprecedented geopolitical crisis in Europe, following Russia's attack on Ukraine and the decision of the Russian Government to use energy as a weapon. We must acknowledge that the implications of the Russian invasion have materially hit Fortum Group. Fortum has traditionally had exposure to Russia, directly with our investments in mainly gas-fired generation in the Urals and Western Siberia as well as in Russian wind or solar. Fortum's business has played an important role in the Russian market. And until recently, we have had constructive relations with our stakeholders there. The attack on Ukraine changed all

that. However, we are most exposed to Russia through our investment in Uniper. As you may remember, for Fortum, this was an investment in Nordic CO2-free power generation and an investment into the European energy transition where Uniper's strong position in natural gas and security of supply would play a key role. Nevertheless, Uniper's Global Commodities' business, as a central player in German gas markets, has been a major importer of Russian gas into Germany. And now Russia's aggression has turned this strategic choice into a liability we must turn around. Today we are also affected by the extreme prices and volatility, that increasing supply [fierce? 00:06:57] drive on the continent and in the Nordics. The situation is challenging to consumers and politics. And unfortunately, it is only expected to intensify towards winter, as low Russian gas flows could cause severe demand rationing in Europe. The skyrocketing commodity prices are also affecting the Nordics where increasing power prices are now prevalent not only in the spot markets, but also in forward prices across the curve. As high prices are a concern to all societies, governments are discussing ways to soften the impact. The messages under consideration mainly include price caps, tax rebates and direct subsidies. In some countries, however, political interventions, like additional taxes on profits of energy producers, have been introduced. So far, these so-called windfall profit taxes are not on the agenda of Nordic governments. At Fortum, these challenging times underline our responsibility for security of supply and the clean energy transition. In this respect, our priority in the short-term is to maintain the high availability, efficiency and safety of our Nordic fleet and to continue to play a key role in delivering low-carbon electricity to the region. We look forward to the start of regular production of Olkiluoto 3 Nuclear Power Plant expected in December and the construction of Finland's first floating LNG terminal at our Inkoo harbour. To sum it up, the geopolitical crisis is an unprecedented challenge for our modern European societies and our customers. It has created an unprecedented level of risk for Fortum Group. We had to act first and in the best interests of our group, which we have done. Given the gravity of the situation, let me recap the major developments that led to this predicament and why we made the choices we did already last winter. In August last year, Europe was coming out of COVID, and commodity prices were supported by the rapid economic recovery, and there was tightness in the gas supplies to Europe. At the same time, our collaboration with Uniper was on a good track Uniper's new management. Our focus was on defining our joint path towards closer integration and the execution of our strategy rooted on clean power and increasingly clean gas. It was proceeding well. We announced that our Russia division would exit call at the end of 2022, and that we had accelerated the call phase-out both in the UK and in Germany. There was much to be pleased about. As the fall came, volatility and prices in the gas markets increased, and with that Uniper's collateral and margining needs increased as well. All the while, Uniper's gas business was making excellent profits which prompted Uniper to increase their full-year guidance. Fortum Group's financial position had improved, following the closing of a series of divestments, and our created metrics were rock-solid. All in all, we were in a good place financially, strategically and operationally. Then at Christmas time, the gas prices peaked at around EUR 200 per MWh, and Uniper was in an acute liquidity crisis. The collateral and margining needs of the company stood at over 10 billion euros. And we were faced with the very real concern that Uniper might not make it. Uniper's default would have meant, in all likelihood, collapse of the European gas markets,

and it would have had severe impacts also on Fortum and the Nordic markets. We could not let that happen. It was not in our interest, nor anyone else's, to let that happen. Over Christmas and the New Year, we then agreed on the financing package for Uniper together with the German State on KfW bank. Fortum gave a four-billion-euro loan and a four-billion parent company guarantee. The KfW bank gave a two-billion-euro loan. Now it is very important to note that at that time Gazprom was delivering all the contracted gas volumes to Uniper. All of them, like they had done for the previous 50 years. So, this was not an energy supply crisis. It was a liquidity crisis. Uniper needed capital to cover the collateral and margining needs, and these funds would be returned as the gas contracts went into delivery later in the coming months and years. Based on the information available, there did not appear to be any risk of Fortum not getting the loan back. Then in late February, Russia invaded Ukraine and started a brutal war. This decision by President Putin fundamentally and irrevocably changed our relationship with Russia. We stopped our investments in Russia, started searching for alternative fuel sources, and began preparing for an exit from Russia. I'm sure you all remember that time. A couple of weeks after the war started, we published our highest-ever results, 2.5 billion euros of comparable operating profit, half of which came from Uniper. Throughout the spring, while Gazprom continued the contracted deliveries of gas as before, EU-countries started making preparations to secure supply in the event of a gas curtailment. Floating NLG terminals were chartered to increase imports, gas storage filling level requirements were set, and legislation was passed to deal with different levels of emergency. As the parent company of the biggest importer of Russian gas, we faced heavy criticisms over Uniper's continued imports from Russia, despite the war. Our explanation that we could not discontinue these imports because the consequences to the German economy would be grave did not land well. Then came mid-June, and Gazprom significantly curtailed their gas deliveries. Uniper, on the other hand, was still contractually obliged to deliver gas to its customers and had to procure the missing volumes from the market at much higher prices. This crystallised significant losses, and the spiral of reduced gas from Russia and increased prices resulted in those losses increasing. Germany had a law in place for exactly this kind of situation. It was intended for a gas provider to pass through the extra cost from having to buy the missing volumes from the market to customers. The German Government, however, did not take this part of the law into use, thereby making it impossible for Uniper to pass through the higher costs. This left Uniper in an acute financial crisis. Unlike that year end, this time the cause was a gas supply crisis resulting in extreme losses, not the lack of liquidity. With funds depleting and fierce of the gas curtailment being prolonged or even escalated, Uniper called on the German Government to help. And finally, on the 22nd of July, after intense and constructive negotiations, we were able to announce the stabilisation package negotiated between Fortum, Uniper and the German Government, with the help of the Finnish Government to provide financial relief to Uniper. Now, before I recap what was agreed, I would like to point out that although we have an agreement to stabilise Uniper, we still have to agree on the terms of its implementation, get regulatory approvals, in particular from the EU Commission, and seal the agreement in an extraordinary general meeting of Uniper. As a result of the agreed measures, the German State will invest equity to hold a 30% stake in Uniper. Fortum's current stake in Uniper will be diluted to 56% on the initial injection. As Uniper's majority shareholder, we acted to

share the burden with the German Government, knowing that Uniper's rescue was needed urgently and in the interest of Fortum and the Finnish state. Our initial proposal to ring-fence Uniper's German business into their own federal state-owned entity was not viable in this situation. We met our most critical requirement, to stop the massive losses and cash bleeding at Uniper, mainly by the agreement to introduce the levy from 1st of October, which will cover 90% of the losses. It was also important for us that Fortum does not have to contribute any additional capital beyond the eight billion euros in financial support that we already provided. This would have been politically and commercially unacceptable in Finland. All through the process, the support of the Finnish state, as Fortum's majority shareholder, has been particularly invaluable. In consideration of our liquidity support to Uniper, Fortum will have the right to exchange the existing four billion shareholder loan into the convertible instrument which would let us increase our stake on the same terms as the German Government. This would protect us from further dilution and is an option that we can consider. If we do not exchange our shareholder loan, it will stay in place. [?? 00:17:03] to the guarantees of four billion euros that we provided to Uniper, let me highlight that they are not going to result in cash leaving Fortum unless Uniper defaults, which in context of the stabilisation package and reaffirmed investment grade rating is much less likely. In addition, we have agreed to work with Uniper and the German Government on a long-term solution to reform the wholesale gas contract architecture. We also agreed that the German Government stands ready to provide further support if Uniper's losses due to continuing gas curtailments exceed a total aggregate amount of seven billion euros. This so-called backstop was another point that was very important to us and the Finnish State in the negotiations. The rating agencies confirmed Uniper's BBB- rating and Fortum's BBB flat long-term credit rating in the light of the stabilisation package. In a nutshell, this is what we agreed. The outcome is by no means perfect, but it is an outcome that ensures immediate stabilisation of the situation at Uniper. It is a compromise that all parties could live with. Now, over the financial impact that we see in the first half-year result. This has been a highly challenging year for us at Fortum Group, and the crisis is far from over yet. Uniper will accumulate and report substantial losses over the coming quarters as a consequence of the Russian gas curtailments. The amount of these losses will depend on the level of the the curtailments which, as you know, is going to 100% again at the end of the month. On the top row, you see that the Uniper segment is negative in absolute terms, with the comparable operating profit of -570 million. This includes 403 million of gas curtailment losses from mid-June 2022 onwards, but also intra-year earnings shifts in the later quarters through the well-known carbon facing effect, and the shift due to gas storage optimisation that we highlighted in Q1. When it comes to the reported operating profit, the Uniper segment is impacted by 12 billion euros of items affecting comparability. This reflects three things: the anticipated gas curtailment losses until October of more than six billion euros. Most of these is expected to settle in Q3 and affect comparable operating profit. Number two: changes in fair values of non-hedge-accounted derivatives. And thirdly, impairments for fixed assets from the Uniper segments Russian subsidiary Unipro. Bernhard will provide more insights on this shortly. On the bottom row, you see that the Fortum segments excluding Uniper deliver solid results. That generation segments profits from strong physical optimisation and from the increasing price environment, even after allowing for a prudent hedging strategy. In a nutshell, Fortum

standalone is prospering and [performing? 00:20:31]. Having said that, I move to the next slide. Now, in the context of what we have seen in the first six months of the year, let me highlight a very important topic — the current state of futures-traded markets. The rise of the Nordic future prices to the current unprecedented levels has cost the collateral and margining requirements of market participants to increase rapidly. This is the case irrespectively whether you run a purely speculative position, or whether you are a generator with underlying power production and asset fleet. In general, traded markets provide transparency and liquidity, reduce counterparty risks, and give most efficient hedging possibilities. But in the current environment, margining requirements for the existing deals exceed manyfold the potential earnings. Consequently, market participants who do not have enough cash to cover margining requirements have to reduce or even stop trading in the futures market. This reduces marketplaces' liquidity and increases the volatility as a vicious circle. To give a [?? 00:21:45] at this development, let me give you an example. The Nordic 2023 future system price has increased by 500% since February. At the same time, liquidity on the NASDAQ commodities has reduced by 60%. So, while prices, the 2023 prices have gone up sixfold, and market participants' collateral requirements have followed suit, the liquidity in the market has more than halved. Fortum Group's net margining requirements including Uniper at the end of March were approximately four billion euros. At the end of June, they were about seven billion, and this week they have increased to over 11 billion euros. Our collateral requirements have not increased as fast as the market prices because we have reduced our positions on NASDAQ. Our hedging policy has not changed, but we are currently mainly hedging through bilaterals, which ensures hedging of our outright position. We are currently managing the liquidity situation. But if the prices continue to rise, there will be a point when we as Fortum standalone have to increase our liquidity reserves. Our standalone share of 11 billion euros that I just mentioned is slightly more than four billion. Uniper's part is covered by the KFW financing. For Fortum's part, we have started discussions with Finnish State how to manage this liquidity squeeze. It is obvious that the situation is challenging for power producers and consumers alike. Power producers like us cannot hedge in a meaningful way on the market. This means that in case bilateral contracts are not an option, the predictability of the producers' earnings decreases. For industrial customers, electricity sales companies and private consumers this means increasing exposure to spot prices. And finally, it means that despite highly profitable operations, power producers' ability to invest may be reduced because capital is tied up in these oversized collaterals. The situation calls for short- and long-term solutions to make sure that we have a market that functions also under exceptional circumstances. In the short term, I urge our Nordic governments to ensure that working capital financing is available for market participants to cover collateral needs, should they need it. The type of facility Germany has implemented through the state on KFW bank could be a model for the Nordics, too. This would enable power producers to continue hedging and increase the liquidity in the market, which would likely help to curb the high volatility, too. The longer-term solution is to look at the EU EMIR regulation which sets the legal framework for margining requirements. EU-processes take time. Therefore, the discussions on how the implementation of the EMIR regulation could be changed should be started immediately. Let me not close with our group priorities for the second half-year. In essence, our priorities

are divided into three steps. Most importantly, we have to stop the leakage. Firstly, the drain of capital for margining has to come to an end, as I just discussed. Secondly, the negotiations of the details of the stabilisation agreement with German Government and Uniper have to be finalised to ensure that Fortum and Uniper return to stable footing. In addition, Fortum and Uniper have to work tirelessly to reshape our businesses to respond to the current challenging market conditions. It will require further efforts to turn around particularly Uniper's gas business. To achieve this, it has been agreed that Uniper, with the support of Fortum and the German Government, will work on a long-term solution to reform the wholesale gas contract architecture. We know that the situation raises quite some uncertainty for all our employees, especially at Uniper. And we also want a clear perspective for Uniper employees. Everybody wants to know how Uniper should like in the future. But there will be two major shareholders in the future, and we are just in the beginning of discussing this with the German Government and have to learn what their plans are. But also Fortum will have to maintain its standalone competitiveness and to regain the trust of our stakeholders. In addition, we will finalise our exit from the Russian market. We have healthy interest from potential buyers in our businesses there. But as we have already pointed out in May, the outcome will, in the end, depend on the approval by the Russian Government. Finally, we will review our strategy in light of the changed environment to overcome these crises and forge a path towards a sustainable future. Fortum's CO2-free generation assets are needed more than ever. Having said that, over to Bernhard.

Bernhard Günther: Yeah, thank you, Markus. And a warm welcome also from my side. Today I will start again with an overview on our key comparables. As we had to record a substantial negative amount of items affecting comparability in the Uniper segment, following the curtailment of Russian gas and the respective exceptional market price movements, I will run you through some reconciliations how this has impacted our P&L balance sheet and cash flow. As the Uniper division is the main driver of the year-over-year delta, and most you will have followed their disclosure in the investor call last week, I will comment the segments only on an aggregated level today and then close with the outlook section. What you see here is the key financial overview summarising the key comparable indicators of the consolidated Fortum Group. When looking at the financial situation of Fortum, please remember that the second quarter brought us into a completely different sphere with the gas curtailment losses, and we now signed term sheet with the German Government supporting Uniper. Therefore, the consolidated group numbers show a mixture of the healthy Fortum standalone business and a distressed Uniper. In the foreseeable future, there will be no cash flows between the two, in neither direction. Consolidating Uniper into Fortum is still mandated by IFRS, but the resulting picture does not make much economic sense for the given reasons. And as you know, the rating agencies already look at both Fortum and Uniper in isolation. Therefore, today let me focus on two KPIs representing earnings and cash flow for the combined group. Let me start with the comparable operating profit. At the half-year stage, we are down by more than one billion euros. This is fully explained by the Uniper segment. Next to a series of operational effects that Uniper explained in detail in their investor call last week, we saw substantial gas curtailment losses

end of Q2 hitting comparable operating profit in a magnitude of roughly 400 million. And as they explained in their call, there is more to come in the upcoming quarter, and this will also impact the comparable figures. Now turning to cash flow. Net cash from operating activities turned negative, which is in line with the earnings development, but also a consequence of liquidity measures taken by Uniper at the end of the last year to manage the liquidity situation. Please remember that cash conversion from comparable EBITA to OCF has been above 130% in 2021. Therefore, this should not come as a surprise. Our financial position reversed accordingly with financial net debt to comparable EBITDA at 0.8 times at the end of Q2, however, still well below our target level at below two times. The 0.2 times at year-end was also driven by the mentioned liquidity measures taken by Uniper and the group. The strong increase in commodity prices has naturally impacted P&L balance sheet and liquidity. But before diving into the details, let's have a brief look on the segment overview. The reconciliation on segment level confirms what I said before. The year-on-year delta is fully explained by the Uniper segment, as you can see here. What we also can see is that Fortum standalone is slightly up. Let me run you briefly through the segments. Fortum's generation segment was up by 112 million euros, despite lower power generation in the Nordics, especially due to lower hydropower volumes. This was caused by lower inflows and lower reservoir levels during the first half of the year. The operational performance and production volumes for nuclear generation was solid and at the same good level as in the first half of 2021. The chief power price in the generation segment increased by 10.3 euro/MWh up by 27%, following very successful physical optimisation and higher spot prices. This is a very strong performance considering that we already have fairly high hedge levels and we are negatively impacted by significant price differences in Sweden between the high-system price and lower SC2 area, the Sundsvall area spot price, with low liquidity. On Fortum's Russia segment, comparable operating profit decreased by 14% or by 19 million euro. 2021 included a 17 million euro positive one-off effect from the sale of 116 MW CSA-backed solar power project to the Fortum RDIF joint venture. In addition, the CSA payments expired for Nyagan 1. In City Solutions, comparable operating profit was down 70 million euro based on two effects. Firstly, operational. Mainly as a result of clearly higher fossil fuels cost and CO2 emission allowance prices as well as lower heat volumes due to warmer weather partially offset by higher power prices. Secondly, structural effect from the divestments in Fortum Oslo Varme, the Baltic district heating business, and the two times 250 MW solar plants in India. In consumer solutions, comparable operating profits are flattish, as higher electricity and gas sales margins were offset by higher cost. And finally, Uniper. We discussed this on the previous slide. For further details, may I refer you to Uniper's publications. Now over to the P&L statement. What you see here is a reconciliation of the six months' comparable operating profit all the way down to reported net profit. In essence, there are four elements to highlight. Impairment charges booked in Q1 are reflected in various line items. In the items affecting comparability, we have impairment charges and reversals of close to one billion that are mainly Russia-related. Please note that Uniper's goodwill impairment on the Russian assets is not taken by Fortum, what in essence explains the difference between Fortum's and Uniper's figure here. In addition to this, we have impairment charges in the share of profit and loss of associates and joint ventures, mainly on the TGC1 participation. And in the finance costs, you'll find the impairment of the

Nord Stream 2 pipeline receivable. Capital gains include the sale of Fortum Oslo Varme that we closed in Q2. Now to the elephant in the room. The changes in fair values of derivatives hedging future cash flow. In essence, this contains two elements. First, about five billion relate to various commodity hedges like power forward sales. As commodity prices surged, the hedge deals decreased significantly in value. However, the corresponding value of the underlying assets like power plants or inventories are not reflected here as the book values are kept at historic cost under IFRS. This mismatch is only temporary and will resolve over time, as the products go into delivery and the positions settle. Therefore, this will revert. But please note as commodity prices further surged since end of June, this effect might further increase in the short term. Second, the fair value changes also contain the 6.5 billion euro expected losses related to the Russian gas curtailments for future delivery periods. This includes fair values of derivatives of gas forward sales that are no longer offset by positive mark-to-market values related to Russian LTC gas, the long-term contracts. It also includes provisions for onerous contracts that account for the impact of the Russian gas curtailments. And finally, a positive effect of two billion, the respective IFRS tax impact, mainly from the fair value losses. Consequently, at this stage, half-year operating profit is negative by 11.5 billion euros. Now over to the balance sheet. The supply short for the Russian gas and the sourcing of replacement volumes of the curtailed Russian gas created substantial losses for Uniper. These losses are now reflected in our result on a multibillion scale, partly as materialised losses and partly as impairments and provisions that will materialise as losses in coming quarters. The resulting negative net profit of 11.5 billion reduced IFRS total equity to just 1.3 billion euros. This might raise questions on our dividend distribution abilities going forward. On that, please note that dividend distribution capability is linked to the local gap equity and not to the consolidated IFRS group equity. The increase in derivative financial instruments is driven by the increase in commodity prices that had a significant impact, especially in the Uniper segment. Please note that those are booked on a gross basis to the balance sheet, so all deals increase the balance sheet, even though maybe the same product has been both sold and bought several times, back and forth, for the same time period. Looking at the net of margin receivables and liabilities, those are slightly down at half-year stage, despite higher prices, due to our mitigation measures. Liquid funds decreased by 3.5 billion euros, and I will elaborate on this on the next slide. The cash flow statement confirms what we've seen on the balance sheet, liquid funds decreased by 3.5 billion. What has been driving this? First, the net cash from operating activities turned negative. The main reason for the negative cash flow was the increase in working capital in the Uniper segment, as it was impacted by payments for CO2 allowances and cash-related operational measures taken to improve liquidity in the fourth quarter of 2021. These measures had a reverse cash flow effect in the first half of 2022. In addition, following the gas curtailments, Uniper has procured replacement volumes at high market prices, which also has increased working capital. Second, the net cash from investing activities is negative, as the cash flow from divestments could not compensate for the increase in margin receivables. And third, the cash flow from financing activities decreased mainly related to repayments of commercial papers. The next slide now shows net debt and our maturities profile. As the upper graph shows, our financial net debt is up following the negative H1 operating cash flow. Consequently, our leverage target of financial net debt to comparable

EBITDA reverted from the extremely low level of now to 0.8 and it's still well below the target of... below 2. We currently have 13.3 billion euros of gross debt at an average interest rate of 1.3% for the whole loan portfolio. The interest rate is slightly up compared to the last quarter, as market rates have gone up. We had liquid funds of 4.2 billion on group level and approximately 1.1 billion of that — on a Fortum standalone basis. With regards to the contraction maturities, those are 0.5 billion euros down, as we paid back commercial papers in June. As well, in June, we signed a new 5.5 billion euro revolving credit facility at Fortum. Overall, the profile might appear a bit front-loaded. But you see on the graph that we have quite some extension optionality. And please remember that this is the consolidated picture. And there will be margin roll-offs in the quarter to come. Regarding our BBB rating. Due to the constantly developing external circumstances and increased uncertainties, we are in continuous dialogue with our rating agencies. In July, S&P and Fitch affirmed the BBB flat rating for Fortum with negative outlook, following the announcement in July that Fortum, Uniper and the German Government have agreed on a comprehensive stabilisation package for Uniper. S&P assesses that this support package for Uniper will prevent further incremental cost for Fortum and considers Fortum financial exposure as kept. Having said that, now finally over to the outlook section. This comprises in essence two elements. On the left side, the hedging part for the outright generation where Fortum's successful hedging has continued to create predictability and visibility. The hedge prices for the generation segment increased for this year by 3 euros, and 2023 hedges are up by even 4 euros versus Q1. Regarding Uniper's hedges, it is good to note that Uniper's hedge prices have changed in Q1, as they made some changes to its hedge price reporting. On the right side, there are some important indications. As highlighted before, Uniper's reported results include anticipated future gas curtailment losses based on the situation as of end of June. In addition, we cancel our CapEx guidance for 2022, as the operating environment tremendously change, and we will re-prioritise some of our investment plans, both at Fortum and Uniper. And finally, our tax guidance is unchanged, expecting a tax rate in the range of 22-25%. With this, I conclude our presentation, and we are now ready to start the Q&A session. Pauliina, over to you.

Pauliina Vuosio: Thank you, Bernhard. We are now ready to start. Please state your name and company and kindly limit yourself to two questions. Operator, please go ahead.

Operator: The next question comes from Pasi Väisanen from Nordea. Please go ahead.

Pasi Väisanen: Great, thanks. This is Pasi from Nordea. And thank you for the presentation. To start with, I just actually looked that... Would it be so that without this stronger Russian ruble in the second quarter, your equity actually would have been negative end-June? So, is that right? And what will be the exact amount you are able to report on your own equity from this Uniper's 8 billion convertible in the fourth quarter? And lastly, would you like to share some views regarding the investments and dividend policy going forward? And is there kind of need for the rights issue or raise new equity at some point of time? Thanks.

Markus Rauramo: Thank you, Pasi, for the questions. So, I think there were four questions. What was the effects impact on equity, own equities. So, maybe Bernhard can take those. And then I can talk about the dividend policy and need to raise equity. So, with regards to dividend policy, our target is that our dividend policy is unchanged. So, our target is to pay a stable overtime increasing dividend, and that should be underpinned by our earnings growth. So, that is what the policy says now. We will then, towards the end of the year and in the turn of the year, assess the situation with regards to our earnings and capital, and balance sheets and so on. Discuss with our board who will then make a recommendation to the AGM with regards to... what to do with distribution of profits. So, it is too early to say. I think the long-term direction is clear. Whether there is a need to raise equity at the moment, well, you have seen our numbers, net debt to EBITDA numbers and so on. And then, with regards to the future losses that would be accumulating from Uniper, that they already provided for. So, that impact you can see in the equity now. Part of the... A big part of the equity, impact on equity, is the changes in the fair values of the hedging instruments. And then, how will these losses be handled. Well, you did mention the German Government convertible. So, that is the instrument that will then replace the current KfW funding in the capital structure. So, it will be something that will give stability to Uniper's balance sheet. And then, with regards to the accounting treatment and so on, I think Bernhard can comment on that, but that's something, of course, we will then come to once the final terms and conditions are agreed. But the term sheet sets out the big picture and the framework of the agreement which brings the visibility, stability, liquidity and covers the losses until the backstop, and then Germany has committed to handle also the amounts exceeding backstop in a non-dilutive way. And then, Bernhard, if you want to add something on the FX side and equity otherwise...

Bernhard Günther: Yeah. Obviously, the movement in the ruble exchange rate between Q1 and Q2 had a quite massive effect. And if you deduct this from Fortum's group IFRS equity, you would indeed end up with a negative number on just this standalone effect basis. So... But again, this has no relevance in the sense that any immediate actions or so would be necessitated by that.

Pasi Väisänen: Yeah, I hear you. So, would it be kind of a fair assumption that you are going to book roughly a half from that eight billion German convertible to your own equity in the fourth quarter?

Bernhard Günther: We are... It's far too early to say how this will be treated accounting-wise because we are still in the middle of the discussions with the German Government of how the mandatory convertible will look like. And only once we have agreed on the overall financial and legal mechanics the accounting treatment can be assessed.

Pasi Väisänen: Great, thanks. That was all from my side.

Operator: The next question comes from Vincent Ayrat from JPMorgan. Please go ahead.

Vincent Ayrat: Yes, good morning and thank you very much for this presentation. So, a good question was asked just before. Actually, my questions are along the same lines. Trying to understand basically what is Fortum's exposure beyond the pure equity stake in Uniper. So, when I hear what I hear, I have the impression that you do not necessarily have the option to convert the loan into the convertible. It's kind of mandatory. So, you don't get these four millions back. Is it really an option? It is question number one. And when we are on the same thing, you got four billion guarantee. And this guarantee... Could we get like an insurance that indeed you will get the money back on the guarantee? And that's quite key for me. The second is not directly on the loans to Uniper, but again, we're back to the balance sheets and dividends. You're saying that's... If I quote you, literally, the dividend policy is unchanged, but you and the board will review it at the end of the year once we know what is the final bill on the Uniper. Is it indeed fair to assume that the rating agencies may want to see some efforts on the dividends, especially if they do not force you into a capital race to get the rating. So, is it a fair assumption to work on some sort of dividend resets, like one euro or something like that? Thank you very much.

Markus Rauramo: Okay, so maybe I'll start with the... actually the last question because it's a key question. So, going forward, once we get... I mean, we are now in an acute European energy crisis. So, that's good to remember that we need to work on certain fundamental foundations to get them in place, like documenting this stabilisation package, giving clarity to the margining requirements by the exchanges and so on. That are causing disturbance to the whole market. But of course, we are thinking about this simultaneously. And then in the medium and the long term, we need to look at the three elements: of balance sheet, growth and dividend, how to balance that. We see good possibilities to participate in the energy transition. To do that, we need a solid investment grade balance sheet, that is clear. So, utility we need a lot of capital. And then we balance these two elements with the dividend as well. And we know that we have long-term investors that appreciate the stable dividend deals. So, these are the elements we take into consideration, it's not so that one party, like rating agencies, would fix one corner and then we solve the rest, but we look at the total balance, how we manage the system in the long term. With regards to the exposure. So, we have the equity stake, that is one exposure. And then, on the possibility to convert our loan into equity. So, this is truly an option. This is what we negotiated. It has... It gives us the possibility to convert at the same terms, which should be favourable terms. So, it's a... It is valuable for us to have this option. And then it's in our discretion if we convert or not when the mandatory convertible comes to maturity, whether we will take a part of that. And with regards to the four-billion guarantee, now we have agreed that the German Government will come in with the 30% stake into Uniper. KfW has provided a nine-billion loan facility and German Government — the 7.7 billion convertible. So, I'm looking at the guarantee against this backdrop, how comfortable do I feel that the guarantee will not be triggered. So, it would be triggered if Uniper would default. And we have all this layer of protection to actually protect Uniper from the financial difficulties in the market that it is facing, of converting into then an actual financial problem beyond, what has been agreed. And, of course, we hear from the German Government that they regard Uniper as a very important

part of the energy infrastructure and have supported it already with these measures. I hope this helps.

Vincent Ayrat: Yeah, yeah. I mean, just to understand one thing. So, basically, if I summarise, you're likely to convert the shareholder loan because you'll be economically sensible, given the strike price on the conversion at Uniper. So, this money is safe with Uniper. You should get the four-billion guarantee back. And your main areas of exposure at the moment are the costal requirement on the margining which you're working on, and potentially the backstop which, in our estimates, will be triggered in the coming weeks, even before October 1. Is it a good summary of the situation?

Markus Rauramo: With regards to the conversion, I go back to what I said earlier. So, it is truly an option, but it's a far going conclusion that we would convert it. We have that option but we will make that decision at the time when we get to the point of the possibility to convert or not. So, we haven't made any decision. And, of course, this could be an option in the money, but we will need to assess that once we get there. So, no decision yet and no conclusion, what we would do there. Then otherwise, you brought up the backstop as well. So, that is an important part of the element of the term sheet, in addition to the instruments that I already referred to. And that is one of the issues that Germany has to know work out, how... What are the instruments and elements beyond the agreed backstop, how will Germany handle this in a non-dilutive way and at the same time take care of the social implications for industries and consumers of the increased energy bill.

Vincent Ayrat: Thank you. Thank you very much.

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

Wanda Serwinowska: Hi! Good morning! Wanda Serwinowska, Credit Suisse. Two questions from me. The first one is one the backstop. Would you accept further that as a basically non-dilutive rescue for Uniper once the seven-billion backstop is reached, as Vincent said? I mean, it can be reached within the next few weeks. And another point is... From what I understand the details of the term sheet are still being discussed. And may be disclosed by the end of the year. So, how are you going to address it in the communication with the financial market? Because for the time being, we don't really know how the seven-billion backstop will look like. And the second point is on the German Economy Ministry spokesperson's comment yesterday, who said that they don't expect to see any need to adapt Uniper bailout package. I mean, I would argue that the (inaudible) deteriorated massively since you started the negotiations. I mean, you look at the 10% of the losses that Uniper is responsible for, and it could be four billion for next year. Any comment on that?

Markus Rauramo: Okay, so I'll take a couple of points here and Bernhard can add to that. So, with regards to the backstop, it was agreed in the term sheet that beyond the backstop there will be a non-shareholder dilutive solution, beyond that. And exactly what that will be, this is part of the details that have to be discussed. And as I said just a while ago, I think the other side of this question is that how will the German society deal with the consequences. And maybe I'll just lift that discussion up also to the bigger European energy crisis. So, whilst

we are here talking, it's completely fair to talk about the Fortum and Uniper consequences. But we are looking at the very serious energy crisis in our hands. So, this kind of price-level volatility, uncertainty and the worry in the market is not good for Europe. So, Europe needs a concerted effort, and governments need to address the issues that we mentioned earlier. With regards to the details of the term sheet, of course it is in our interest, and everybody's interest, that we work out the detail as fast as possible. So, we want to get to the final document as soon as possible and that's what we are working for. And we'll then disclose details, once we have the visibility. And for the comments of the German ministries, then we have the term sheet agreed and we are now working out the details. So, exactly what they then refer to then... I have seen the comments, but how I should interpret them then... I look at this through the agreed term sheet.

Bernhard Günther: Yeah, referring to the comments of the BMW car. Of course, the situation is worsened since the 22nd of July. But this is exactly what the backstop, or the purpose of the backstop in the term sheet, is all about. So, the term sheet was based on the assumption prevailing at the 22nd. And we anticipated that things could go either in a negative sense or develop in a positive sense, and the backstop was exactly brought into the term sheets to deal with such a scenario as we're seeing it now.

Wanda Serwinowska: Can I very quickly follow up? I mean, on the backstop, would accept the additional debt as a measure? Because yes, you may argue that it's not shareholder-dilutive. But it basically destroyed the value of your investment.

Bernhard Günther: Yeah, I think we... Concept of dilution that is mentioned in the term sheet is economic dilution. And this is exactly the point you're making. Additional debt might not be dilutive in the sense of voting rights. But it would clearly be economically dilutive, therefore we would not regard this as an appropriate measure to implement the backstop, at least sustainably. Kindly, of course, KfW is providing the kind of rich financing.

Wanda Serwinowska: Thank you very much for the comment.

Bernhard Günther: Thank you.

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

Artem Baletskiy: Yes, good morning and thank you for taking my questions. I would like to ask first what comes to power hedging situation. And I think you mentioned in the goal that you are now doing also some type of bilateral agreements with power consumers here in Nordics. Could you maybe talk more about whether it is quite meaningful and it is done basically at the same prices as what we have seen in terms of forward for outcoming years. And just in general, whether your hedging policy has changed in general, beyond Q2. So, this is first question. The other one is related to Russia. So, Russia's book value has increased by more than two billion euros in the quarter due to stronger ruble. Have you actually considered to do some write-downs now in Q2 or maybe later on this year. And the last one is, just thinking about your balance sheet situation, have you thought about potentially initiating some further strategic review processes, also given the fact that we have seen quite strong development, what comes to power prices in Nordics?

Markus Rauramo: Okay. So, with regards to power hedging and bilateral agreements, the answer is that yes, these volumes are meaningful. So, basically, the same counterpart is that we would have been on the other side in the exchange we have gone directly to. And then... And I think... This is a great question because it illustrates that it's not only us now in the increasing prices that would have the margining liquidity requirement. But when the prices go down, then it's actually the buyers who have the mirroring issue of having to post large collaterals. So, this is a systemic issue. What, of course, happens is that then we need to take counterparty risk, when this happens. But meaningful volume. So, this comes to the... This then is a bridge to the question that, "Is a hedging policy the same?" Yes. So, hedging policy continues to be the same. The purpose is to give visibility and stability to our earnings, so that we have the, let's say, 24-month visibility. And then, if prices move beyond that, then we have time to adapt our operations to those circumstances. With regards to the Russia value increase and any need for write-downs, we did not then announce additional things compared to what we had earlier said, in Q2. And if there were a situation that we need to assess or impairment triggers, of course we would do that. But no such triggers at the moment. And then with regards to future strategic reviews, we don't have such announcements at the moment. We are working to... We will need to work with the German Government then, on Uniper, on what is then Uniper's way forward. And we need to look at what are the steps Fortum needs to take going forward to continue to be a strong player in the energy transition, which, as I mentioned, we are doing as we speak. So, we are not... We have definitely not, even in this situation, we have not stopped the development. We are building a 380 MW wind park in Pjela-Böle, on the West coast of Finland, one billion investments into Loviisa lifetime extension, Olkiluoto 3 is coming online. We have the largest data centre heat offtake project with Microsoft and many others. So, the energy transition is something where we are participating and will participate. And on top of all of this, even in Finland, the first floating LNG terminal coming to our Inkoo harbour. So, many things happening at the same time.

Artem Baletsky: Alright, thank you.

Operator: Please state your name and company. Please go ahead.

Speaker: Firstly, thank you for the presentation, it's very helpful. I have two questions, please. The first one was on slide nine where you discussed margin requirements. And I think I had the numbers around and right, that you were talking about seven billion of margin requirements by the end of June and... And if we were to look at current forecast at 228 EUR/MWh, would that mean that the margin requirements that we would see on the recent power price rally have stepped up to and extent that they are greater than the undrawn credit facilities you have which you highlighted later on the presentation? Could you maybe just explain a little bit there, so I get a bit of a better understanding, how much of the end-June facilities as well as the net margin requirements of Fortum specific and which ones are attached to Uniper? And then the second question is that... I appreciate that you make the statement that any further support from the German Government in regards of the stabilisation package would have to come in a non-dilutive way. But as a majority

shareholder, what are the hard lines, what are the things that you'll accept or won't accept in regards to safeguarding Uniper and ensuring that its balance sheet is well-capitalised for the current market environment?

Markus Rauramo: Okay, so maybe I'll start with the majority shareholder view on Uniper's stabilisation package, and if you want to take, Bernhard, the margin requirement, which I'm happy to talk about as well, but I'll give that to you. So, as we said earlier, with regards to what happens beyond the backstop, the point is the economic dilution, that... This is a point where we need serious consideration, that it's not like endless, where we can just expect that companies continue to buy gas at a high price and just sell it onwards, without being compensated. That's not the healthy system going forward. So, this non-dilutive backstop concept is an incentive also for the society to then take a decision that, "Okay, this is not only about Uniper and its stabilisation package, but also the tools that, even under the current laws, can be used by the German Government. This is... So, this is a bigger conceptual issue. We have certain very key terms that, I think, are quite elegantly outlined in the term sheet and which we have communicated to the market. So, it takes care of liquidity, it takes care of loss coverage, it takes care of the mid-term backstop, and it commits the parties to the long-term solution of how the German gas market structure should be then worked out in light of everything that is happening. So, it's a really comprehensive term sheet for a very infrastructure-critical company that Uniper is. We're committed to this solution and we're committed to the principles. But we're also committed to that these are the cornerstones and the guardrails of this agreement. Then I'll hand over for the margining question for Bernhard.

Bernhard Günther: Yeah. So, on the margining of the seven billion end of June, the smaller part, clearly below half of that, was Fortum-related. So, the bigger part was Uniper-related. This is clearly gone up but, as Markus said, it has been... And the proportional, yeah, because we also have been reducing our margined volumes, and these recently newly-installed 5.5 billion euro RCF is also partly destined to flatten out liquidity swings from such movements. So... And the margin movement between end of June and now, middle of August, second half of August, was the magnitude of a billion, roughly.

Speaker, Goldman Sachs: Okay. Can I... Just one clarification on the earlier point? It's just... At the end, the German Government also has to defend the end-user, the consumer, right? It's taxpayers' money that has been used here. I just tryna understand if they... How do they ensure that they are getting value for the money that they're putting in place, in supporting Uniper? Surely, that has to come on the consequence of... Yeah, maybe selling of some of the assets to par fund or some of the force major solution that is ultimately valued as quite sizably destructive for value and... Is there any other sort of insights you can give there or is that as far as we can go?

Markus Rauramo: Absolutely. This is a fundamental question. So, I'll make a comparison between Finland and Germany. In Finland... Finland decided to cut the gas supplies from Russia, electricity supply from Russia, coal supply from Russia, biomass supply from Russia. Cost get passed to the customers, consumers, industries. No compensation. Market economy works, supply-demand determine the prices, and prices then impact the demand.

So, things work out in real time. And I think what the first part... What your question is kind of asking that well, should the government or should a company or some companies carry the burden between some contractual price and what does it cost to procure something in the market and just continue to sell at the earlier agreed, but not the market price. So, we can ask ourselves, should we... All the consequences of the war in Ukraine or any other calamity that we would face over time, should a company or should the governments carry these costs or should we allow those forces to work? In Finland, we have chosen that the market forces will work, and then every consumer, every company decides how they react to this and take their own conclusions. And then you have the power of millions of consumers or tens of millions of consumers, also behind the demand side. So, maybe I'll leave it at that. So, conceptually this is what we need to talk about. There is no company, there is no government that can carry the cost of these kind of magnitude. So, there has to be a decision also, that eventually the customers have to face these prices.

Speaker: Thank you. Thank you very much.

Bernhard Günther: Maybe a short procedural note. We're running out of a bit. So, please confine yourself to two questions.

Kati Pohjanpalo: Hi! This is Kati Pohjanpalo from Bloomberg. Just very quickly, returning to your equity position. What is it today, and are you perhaps experiencing an equity deficit? How do you expect it to develop, going forward? And secondly, if you could give us any colour on your talks with the Finnish Government, are those limited to managing liquidity only or is something else being discussed as well? Thank you.

Markus Rauramo: I can take the Finnish Government part, and maybe Bernhard can comment on the equity position. So, I refer to discussions with the Finnish Government regarding the liquidity needs for the margining. So, this is what we are now raising. And it's not only Finnish Government. We are raising this with the German Government, they have addressed this through the KfW much larger facility, we talk about 100-billion facility for KfW that they can use for liquidity purposes for the whole market, not only one company. We are discussing with other Nordic Governments, we are discussing with the exchanges. We are discussing about what could be done to make the regulation also more fit for purpose in this kind of situation. But with the Finnish Government, yes, we are discussing this liquidity for margining topic. And then the question on equity to Bernhard.

Bernhard Günther: Yeah, very briefly. Yes, of course. This equity could also turn into a negative number if there were to be higher losses at Uniper than what they anticipated in the Q2 results where they had these 6.5 billion fair value adjustments and onerous contract provisions. Again, and the IFRS... Of course, this is not a nice thing to have, don't get me wrong. But it doesn't have any immediate implications.

Pauliina Vuosio: Thank you! Unfortunately, this is all we have time for today. We have a few questions on the chat that won't be answered in this event, but our investor and media relations teams are happy to help you with those. Over to you, Markus and Bernhard, for any closing comments.

Markus Rauramo: Thank you very much, Pauliina. And thanks, Bernhard, for doing this together, as always. And thank you, everybody, for asking the good questions. Once again, it would be great to be on the road with you, but good to have you online. The backdrop for this Q2 is the... is the attack by Russia on Ukraine, and Russia using energy as a weapon. And this results then into a European energy crisis. We are all worried about the price of energy, we are worried about the supply of energy, what happens in the winter. We have concerns about the future of critical companies. In Fortum and Uniper, we are very committed into the efficient, reliable and safe operations of our fleet. And this is something where we have done good work, and I'm really grateful to all of our employees in Uniper and Fortum for the really great work that they have done. Our efficiencies and availabilities and safety has been very very good. We can also see from the Q2 comparable numbers that our businesses can perform well and can deliver good results in these circumstances. Then we have the big issue of the gas curtailment-related losses. And this is something we are handling together with Uniper and the German Government. And we will conclude the documentation of the term sheet and establish a stable footing for Uniper. But we can say that the liquidity support has been there and is there as we speak, in the form of KfW. I look forward to the next quarter. And in the meantime, we will work on delivering security of supply and reliability to you, to our customers, to the society.