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Speakers:	Pekka Lundmark, President & CEO Markus Rauramo, CFO
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PRESENTATION

Ingela Ulfves

Welcome to the news conference on our first quarter results here today. Due to the Covid-19 situation this event today is virtual with no physical attendants. My name is Ingela Ulfves and I'm heading the IR team at Fortum. And in normal order, this event is being recorded and a replay will be available on our website after today's presentation. As Uniper now has become part of the Fortum group, we today present for the first time Fortum's financials, including Uniper's consolidated balance sheet. Our CEO, Pekka, and CFO, Markus, will go through the Q1 2020 figures and performance. After the presentation, we will open up for questions and answers. And as a reminder, you are also able to ask questions on our webcast chat. So without further delay, I hand over to Pekka to start.

Pekka Lundmark

Thank you very much, Ingela and dear investors, good morning. We've published this result in the middle of historical uncertainty. We all know that the world will face a major recession and nobody currently knows how deep and how long that recession will be. We are analysing different strategic scenarios. We are, of course, in the middle of a very big strategic transformation with Uniper and I can assure you that we are monitoring the economic situation caused by Covid-19 all the time and feeding that into the various scenarios for the different strategic options that we have.

We are, of course, now a much larger company than before. Our top line, when consolidated with Uniper will be one of the largest in the Nordic region. We will be the second largest nuclear producer in Europe and we will be the third largest CO₂-free electricity producer in Europe.

In the middle of this uncertainty, we are happy to present quite a solid set of results. All segments except City Solutions had better or same results as last year in Q1 in 2019. Nordic power demand decreased by 3% in Q1. So there you see that Covid-19 did not have any major impact yet on the Nordic power demand. And actually, the April demand was even slightly higher than in April last year.

What did have a major impact, not Covid, but the weather, had a major impact on heat volumes during Q1. So we had a very mild and wet and windy winter. As said, the effects on power price demand were unlimited, but on heat price demand they were quite big, which is then seen in the City Solutions result.

So it was really the hydrology that pushed the prices down in addition to the other weather conditions, combined with weak commodities, which of course indirectly affect power prices also in the Nordic region. The spot price was down a lot in the quarter, 67%, which is, of course, a very steep drop in a short period of time.

Our hedging has succeeded well and that's why our achieved power price was down only 11% in the quarter. The CO₂ price was also volatile. It dropped to around €15 per tonne, but has since recovered to around €20 per tonne. I will come back to the Covid-19 effects a little bit later in the presentation.

Looking at the quarterly results, first of all, our comparable EBITDA and comparable operating profit, both were roughly flat compared to last year. But then in items affecting comparability, we had €430 million sales gain from the divestment of Joensuu district heating and there was also a one-time accounting item of €220 million negative, which has to do with the consolidation of Uniper and Markus will explain this in more detail. This item is non cash.

So all in all, when then including our share of Uniper's result which was €469 million, we had a pretty strong start for the year in terms of net profit. It was €1.05 and of course for one quarter, this is an excellent result. Remembering, though, that for Uniper, as an associated company, this includes both Q4 and Q1. Without this non-cash item 222 that Markus will explain, the EPS would actually have even been €1.30, but €1.05 is the reported EPS.

The consolidation of Uniper has now changed our business profile quite a lot and that's why we have now put our financial targets under review. And our goal is that they will be revised by the end of the year. We now seek strategic alignment with Uniper; that is work that we want to do extremely thoroughly. And once we have conclusions on that work, then will be the time to publish new financial targets. What I do want to emphasise, though, is that we have not changed our dividend policy. And when it comes to balance sheet, our key driver right now is to secure our credit rating of a level of at least BBB.

So those things, of course, have not changed in any way and we will come back with more detailed financial targets once the strategic alignment with Uniper has been done.

Some other highlights for the quarter. Of course – and I will comment Uniper again in a second – but we now own 73.4% of the company. It is now consolidated as a subsidiary. We have now appointed four out of six shareholder nominated Uniper supervisory board members, including the chairman. So we have taken several important steps during the quarter in the Uniper project.

Other highlights of the quarter, I already mentioned Joensuu divestment where we booked a €430 million gain. We have now also closed what we have called Nordic wind capital recycling, and we expect to release €250 million capital. All of it will not be in Q1; some of it will be in Q3, but altogether €250 million capital could be released. We keep 20% ownership in this portfolio, but 80% has been divested.

And then finally, one transaction, which is perhaps financially a little bit smaller, but quite important demonstration of value creation possibilities through technology investments. In this case, electric mobility, we made a deal where we divested the majority of our Nordic charging network, EV charging network. We retained 37% ownership in that business. And this transaction valued its network at 140 million, which is significantly higher than what we had invested in it. So this has been excellent value creation. We have about 1,300 public charging points that we are operating and additional 1,400 charging points in Norway, Finland and Sweden.

So again, enterprise value, 140 million for this fleet. We continue to operate EV charging services. We will be a smaller owner in physical infrastructure, but when it comes to the service and software layers and those aspects of the business, we definitely continue to be a strong player in EV charging going forward.

Then back to power demand. I already mentioned that the Nordic demand was fairly stable in Q1. It was only down 3% year over year. So virtually no Covid-19 impact there. But in the larger European markets, there was clearly an impact, especially when you look at France and Italy here, that impact started in March. January, February was pretty much normal. On a quarterly basis, France was -5% and Italy -7%. But as you can also see from this chart in March, and it does continue to some extent in April, then the drop has been quite significant. There has been days and weeks where the drop has even been 15 to 20% in some markets.

Here you see a risk map associated with the Covid-19 situation at Fortum. So far, the impacts have been very limited. There is virtually no direct financial impact in Q1 results, but then, of course, going forward much of this will come indirectly. We will be facing a significant recession and weak economic overall situation, of course, will most likely affect commodity prices. It will affect power demand, especially of the industrial side. Not that much probably on the consumer side, but definitely on the industrial side. It could affect some maintenance and overhaul schedules of certain power plants, and it could also affect credit loss risks in case there are customers who are unable to pay.

What I do want to say, though, is that as of this time, we have not seen any adverse material impact in terms of credit losses. But we just want to highlight this also as a potential risk, since we are currently unable to estimate how deep and how long this recession will be. Uniper has also reported that Covid-19 has so far had only limited impact on their

operations. All our power plants are running smoothly and this is, of course, very important for the security of supply for the society.

Most of our employees have been working remotely for about two months now and currently, depending on the instructions by the authorities in different countries, we are looking at ways to gradually reopen some of the offices. But we are in no hurry. Safety first.

Nordic hydro reservoirs were actually in the beginning of the quarter slightly below historical average. Then January and February were extremely wet. Not only warm and windy, but also wet. And as you can see here, the orange colour, which represents 2020, throughout the first quarter, we've had an extremely wet hydrology, almost record high. That continued until the end of the quarter, which is then seen in very high hydro production for the quarter. But then now, lately, the weather has been more dry. And as you can see here, as of today, the reservoir levels are actually pretty close to historical average, but – and this is important to note – the snow levels are high in northern Scandinavia, in northern Sweden, northern Norway, northern Finland also, and the spring flood is clearly delayed because the weather has been quite cold. So even though the reservoirs are currently on a pretty normal level, we do expect them to fill up pretty quickly when the spring flood really comes, because once again, snow balance is extremely high at the moment.

Fuel prices have been on a downward trend. I want to emphasise that these are, what you see here are not spot prices. These are 2021 forward prices. Coal has been sliding down, gas as well. Gas spot price has been really, really weak. But as you can see, also the forward price 2021 has been weak. What is important to note is that in 2019, Europe absorbed most of the additional LNG production in the world, about 50 BCM additional production or supply in LNG. But now, with weaker demand because of the economy and because of the fact that the storage is up pretty much filled up in Europe, Europe's capacity to absorb more LNG is more or less saturated and that affects how the market is behaving.

I mentioned already the CO₂ price development, that it dropped significantly as a result of the market uncertainty caused by Covid-19. After that, there was a certain recovery and 2019 was, of course, if we look back at last year, which you see here on this slide, 2019 was the first year of operation of the market stability reserve, the instrument which continues to keep the market tight, at least until the end of 2023. And considering all other changes in the market in 2019, the coal to gas switching worked and we estimate that approximately 80 million tonnes of CO₂ emissions was avoided due to coal to gas switching in Europe.

One important thing to note for the CO₂ market is that the 2019 UK CO₂ allowances, which amount to about 50 million tonnes, were not auctioned last year due to the Brexit uncertainty. But they will be auctioned this year together with the 2020 allowances and this temporarily increases the supply in 2020.

The MSR continues to remove a significant amount of allowances, about 370 million tonnes also during 2020. And this will make market much tighter during the coming years.

Discussions on European Green New Deal are supportive to the EU price and we continue to be optimistic about this market because there are no indications that the European Union would be backing off from ambitious climate goals despite the coronavirus. What, of course, is important to note is that economic weakness will, of course, take away some of the demand for CO₂ allowances.

Then if we go to electricity spot prices, this is, of course, a very sad picture here; you see the dramatic drop that we saw. It started already in the fourth quarter last year and it continued throughout the first quarter. And also, the forward prices for the coming quarters have continued to slide down, not as dramatically as spot price, which once again has been driven by the weather conditions and commodities. But here you see a comparison with where between where the forwards were on the 3rd of February when we last published our result and where they were on the 12th of May. So there is further sliding seen. And similar sliding, but though not as strong as the spot price can be seen in the forward prices for the year 2021/22 and 23, they were throughout last year between €30 and €35 and now they are around €25. So there is quite a significant drop in forwards as well.

Here you can see in graphical format. First of all, the drop in the spot price, which was, as I said, strong 67% in the quarter. But the fact that our hedging has succeeded well, our achieved price dropped only 11%. In Russia, the drops were also clearly visible, but significantly lower than in the Nordic power price.

And then some brief comments on the divisions generation. First of all, improved comparable operating profit from 223 to 235. The higher hydro generation, which was up 33% year over year, more than compensated drop in achieved power price. But we had 6.4 TWh of hydro volume, whereas the volume was 4.8 TWh a year ago. Nuclear generation volume was flat at 6.3 TWh for the quarter. So a pretty good quarter overall and what I would also like to point out is that 100% of the generation of this segment in the quarter was CO₂ free.

Russia had another good quarter result on the same level – 99 million comparable operating profit. The forex impact was only limited – 2 million for this quarter. But here, of course, we have to remember that this is calculated on the average forex during the quarter. Currently, the rouble has weakened further and of course, that needs to be taken into account through the translational effect going forward when we are estimating the euro denominated result development of the Russian division. Operationally a very good quarter and no adverse effects whatsoever.

City Solutions had a tough quarter. Of course, part of the decline is coming directly from the divestment of Joensuu. That's about 10 million decline. The comparable operating profit went down from 92 to 58. So 10 million out of that comes from Joensuu but the bigger part is coming directly from the fact that this was a record warm winter, which significantly took down heat sales. And heating and cooling business was 22 million negatively affected by both lower heat volumes and in Norway, because of heat prices. Because Norway links heat prices to electricity prices and when electricity prices dropped then also automatically heat prices dropped, which then caused this drop to the result.

There was a smaller effect and here is probably the only place where there's a direct Covid-related impact, but this was quite small in low single-digit millions in the recycling and waste business, which of course is very closely tied to

industrial activity. We are treating hazardous waste created by industrial customers and if industrial activity is weakened then it does have an effect on this part of the business. So overall a weak quarter but the difference between last year and this year can be directly attributed to these things that I just explained.

Consumer solutions had again a great quarter and I have to praise the team in consumer solutions. This was now the 10th consecutive quarter of improved results and the comparable EBITDA and comparable operating profit at 48 million and 32 million respectively were not only ten consecutive improvement quarter but also record high quarter ever result-wise in this business. Excellent work.

And then finally, now we are going to start reporting a new segment called Uniper. We now own 73.4%. In this report we only consolidate the balance sheet, but then from the second quarter onwards we will also then consolidate P&L. We have, as I said, now nominated four out of six shareholder representatives and now we expect deeper collaboration to start. We have started some tactical operation in some smaller projects already, but now we expect to start deeper cooperation. And as I said, we would like to, by the end of the year, create strong strategic alignment between Uniper and Fortum and very importantly, that alignment will not only lead to asset strategies focus areas for further investments, but it will also include ambitious decarbonisation targets for the combined fleet of both companies.

Datteln 4 has been discussed quite a lot recently. What we would like to point out is that first of all, we are very pleased with the fact that Uniper has published quite an ambitious shutdown schedule for their old coal fleet in all their European operations. They also published a 2035 carbon neutrality target for the European operations and they had a 21% decline in CO₂ emissions last year. So we are pleased to see that the important decarbonising steps had been taken already in Uniper and more is clearly underway.

When it comes to individual power plants like Datteln, it's very important to keep in mind that the European emission trading system covers all power plants and all industrial facilities in Europe and there is a Europe-wide agreement that this system is the policy instrument that drives down emissions for power plants and all energy production in all industries. The whole idea in the system is that the supply of emission rights goes down year by year and that means that gradually the least efficient facilities are pushed out from the market and the central idea in the system is that the total amount of emissions is not determined by which individual plants run and which do not run, it is determined by the system itself. We are of the opinion that if Europe wants to achieve climate neutrality 2050 we need to increase our ambition level also in the policy instruments and that's why we did welcome and we worked hard in the background to get MSR implemented, to get the linear reduction factor increased to 2.2% as it will be done in 2021 and we are still of the opinion that their system should be further tightened. This is a systemic way to make sure that you really reduce emissions and not only transfer them from one place to another.

And this also applies to Datteln 4. Even though I understand very well that it sounds crazy to start a new coal-fired power plant in 2020, but the fact is that every single CO₂ tonne that Datteln produces will be part of the emission trading scheme and an emission allowance will be bought for it, so it does not affect the total amount of emissions. It is the system that is determining that.

So that much about Datteln and ambitious climate targets. Our goal is to, by the end of the year, publish a strategic plan for the companies Uniper and Fortum together, and that will include ambitious decarbonisation targets as well.

Final note on Uniper's result. We are of course very pleased with the result development. They had a great Q1 result and our share of profit from Uniper that we now report in this quarter, which is still an associated company basis, was €469 million. And I'd like to note that cumulatively we have so far booked already over €1 billion profit from Uniper, and that's of course a very good number. We're pleased with it and we're looking forward to now working together with Uniper in strategic alignment.

And now over to Markus.

Markus Rauramo

Thank you, Pekka. I will summarise the Q1 performance. If we start with the comparable operating profit, it was stable at 393 million. Generation was up on good volumes and there was a negative impact from prices, but altogether 12 million improvement. Russia was stable, power margins were lower, but heating tariffs higher and then a very small FX impact on the quarter. City Solution was down 34 million. It was driven by lower power prices, lower heat volumes, very, very warm winter, exceptional conditions. Joensuu district heating was divested which had a 10 million impact which was mentioned, and then the lower profitability in recycling and waste solutions. Consumer solutions continued its very good performance – improved 6 million year by year. Tenth consecutive quarter of improvement. And then other operations flat, so I would say all in all solid, reliable, stable performance.

Then I'll move over to the income statement, cash flow statement and some words about balance sheet as well. I'll pick up a few highlights from the income statement. First, if we start from the top and look how the comparable operating profit came together. Sales declined in Q1 and also when you look at the right-hand side in LTM versus 2019. That was on the back of mainly lower power prices in consumer solutions, but then correspondingly also the power purchase costs came down and this resulted – basically all other items stable – so this resulted in comparable operating profit being very stable in Q1 and also LTM versus 2019.

If we then go down on the lines to items affecting comparability. So both in Q1 and last 12 months. This includes a big item of 431 million sales gain from the divestment of the Joensuu district heating activities. Also, we recorded here the 222 million negative item from the recycling true profit and loss statement of the foreign exchange translation difference, which we do now once due to that – we changed the treatment in accounting of Uniper from associated company to subsidiary. So these two are the big items, very big positive from Joensuu and then the one time negative item from foreign exchange translation difference for the Uniper part.

Then if we go further down, share of profit from associates, this is mostly Uniper. Altogether, Uniper's part was the 469 million out of the 479. The Uniper share includes our share of Uniper's Q4 and Q1 profit which also includes the impairments that Uniper made.

Fortum has then made a reversal of 449 million after tax related to these impairments. So that is included here as well. And here we have utilised the fair value adjustment we did in the purchase price allocation in 2018, and from here on we will now stop also the amortisation of this fair value adjustment. So these big items altogether bring the profit for the period to a very strong 938 million and for the last 12 months at €2.086 billion. So strong performance on the income statement side.

Then a couple of remarks on the cash flow statement. So if we start from the EBITDA. EBITDA also stable in Q1 and LTM. On the cash flow side, the paid financials and taxes are at normal level. Then we had strong positive cash flow from the margin receivables due to the market prices came sharply down. So net cash from operating activities in Q1 was very strong – 1.114 billion and for last 12 months, 2.378 billion.

Going further down on the table, capex was lower than last year and last 12 months at 655 million, in line with the guidance we have given. Acquisition of shares at 844 million consists of the payment for the Uniper shares which was at 2,058 billion, but that's the net of the cash that Uniper has of 1.3 billion. Also in the cash flow you do not yet see the second tranche over 400 million of the Uniper share acquisition, so this number mostly is a net of these three items. The whole purchase price for Uniper's shares, net of Uniper cash and then be 400 million second tranche payment that was only paid in May.

Going further down, another big item, divestment of shares. So this is mainly due to the sale of the Joensuu district heating business where the purchase price was then over 500 million. And this brings then the cash flow before financing to 708 million for Q1 and 1.4 billion for the last 12 months.

Finally, in Q1, the dividend was not paid during this period, so it was only paid in May, which then affected our liquid funds, but only after this period.

Then moving on to the balance sheet where we have quite large changes. Balance sheet first of all, increased from 23 billion to 68 billion. I'll pick up some things, some interesting points from the balance sheet. Property, plant and equipment increased by about 9 billion to 18.7 so this is Fortum/Uniper property, plant and equipment combined. Correspondingly, participation in associates went down because previously we had recorded Uniper as an associate, now it is treated as a subsidiary and we consolidate the balance sheet.

On both sides of the balance sheet share in both nuclear waste funds and nuclear provisions increased. This is due to the Uniper nuclear assets in Sweden. Then we had significant increase in derivative assets and liabilities. This is driven by Uniper's financial contracts and also large increase in other assets and liabilities. The increase, the largest part, is due to Uniper's trade receivables and trade payables and there's further breakdown of Uniper balance sheet in the quarterly report.

And finally, the last point I would lift up here is that liquid funds at the end of the period were strong at 4.1 billion. Good to remember, of course that this was pre-dividend.

Then we have some new definitions also, and we have – following the consolidation of Uniper – we defined two new concepts of net debt and this is really to have a sharp definition and include also the new items that are visible on the balance sheet.

So if I start from the top, we have two concepts: financial net debt and adjusted net debt. The financial net debt consists of the interest-bearing liabilities, bonds, loans, instruments that have a maturity. We deduct the liquid funds and then we add the net, mainly the net of margin receivables and margin liabilities. So these are the daily cash movements of the daily settlements relating to our hedging transactions. And as that gets us to financial net debt which at the end of the period stood at 6.98 billion this is quite close to the previous definition that Fortum has been using, but I would say that this is basically the debt with the defined contractual maturity.

Then to make things transparent we have then now introduced adjusted net debt and what that includes in addition to the previous, is basically the net defined benefit pension obligations which stood at a notch over 1 billion and then the asset retirement obligations where the big elements are the share in the nuclear waste funds and the nuclear provisions and the net of these two is 314 million. It's good to remember though, that what we commented in our notes is that there's a part of the funds that is unrecognised due to that, we can only recognise part of the funds equal to the provisions. And then, in addition, 775 million of other asset retirement obligations. So the total of these provisions is 2.1 billion, which brings our adjusted net debt to 9.1 billion, altogether.

We will follow both of these numbers very closely. We look at our indebtedness. Pekka mentioned the importance of access to capital and strong rating. So we're following all the time the key ratios important to rating agencies: FFO, net debt, net debt to EBITDA and we will come back to the definitions in due course.

Regarding the debt, debt structure and maturity profile. Our ratings have been confirmed at the level of BBB flat. We have very good access to capital as you have seen, the bond markets are open and they are open in volume and strength. So the beginning of the year has been very strong. We have very little maturities though in 2020 and 2021. As you can see from the table, the maturity in 2022 is then the acquisition loan for the Uniper transactions that we did this year.

Average interest rate has come down to 1.7% and for the euro loans it's come down even to the level of 0.8%. And again, our liquidity situation is very strong with cash of 4 billion before the dividend payment and undrawn credit facilities in the quantity of 7 billion.

Then, we announced before the results released today that we will revise our financial targets and this is due to the consolidation of Uniper. We need to redefine some definitions, for example EBITDA and we need to look at what are the correct measures and how we follow the profitability going forward. Needless to say, we continue to target the

BBB flat rating, so access to capital with an adequate rating and of course to support also the sizeable Uniper trading activities is very important.

The dividend policy remains intact, as you can see, and we will continue to follow tightly both divisional profitability and profitability of any investments that we would make. We will get back to the definitions of what are the correct measures then and appropriate measures for the balance sheet and also the profitability on a Group level and we will do that by year-end. But again, I emphasise that all of these will follow multiple measures all the time and are in active dialogue with the rating agencies with regards to the balance sheet and we follow the profitability very closely.

Finally, to the outlook, we continue to expect that in the long run demand growth in the Nordics stands at about 0.5%. We have very good hedging levels and that gives us visibility now for 2020 and 2021. For the remainder of the year for the generation division Nordic hedges, we are hedged 85% at €33. For Uniper's Nordic activities the hedging ratio is even 95% at €28. For 2021, for generation division we have hedged 50% at €34, up €1 from last quarter and for Uniper 70% hedged at €28. So again, providing good visibility into the short term.

Capex excluding Uniper, we continue to guide at 700 million, and as you saw for the last 12 months, we were at 655 million. And needless to say that rating is important and we will take that into account when making any capex decisions or future capex plans. The comparable effective tax rate we expect to increase from the 2019 level as the Group now consists of countries where the tax rates are higher than for Fortum previously on average. And finally I would say that it is clear that corona will impact the economy and our operating environment. We follow the situation very closely and we do have the readiness to adjust our activities if needed. We have tight scrutiny on cost; we have scrutiny on capex; but also, we have good liquidity and high hedge levels that give us visibility and time to adjust our activities if needed.

With these comments I'll open up for questions and answers.

Ingela Ulfves

Thank you, Markus, and thank you Pekka for the presentation. So, I said, now we are opening up the Q&A session. Operator, we can start to take questions from the teleconference.

Q&A

Operator

Ladies and gentlemen, if you do have any questions, please press 01 on your telephone keypad to register. Once again, for any questions, it's 01 on your telephone keypad to register. If you would like to withdraw your question, you may do so at any time by pressing 02.

And our first question comes from the line of Sam Arie from UBS. Please go ahead. Your line is now open.

Sam Arie

Thank you very much. Good morning, everybody and thank you for a very comprehensive, very helpful presentation. I'm sure there's going to be tonnes of questions on the detail, but I just want to start if I can with a high-level question. And if I may, I'd like to direct this one to Markus. Markus, I preface the question just by saying I think you've been an excellent CFO and I'm sure you're a very strong candidate for the CEO position, if you're putting yourself forward for that. But in that context, I think it would be very helpful to understand your thoughts, Markus, on the strategy going forward, and in particular on the dividend policy, which you have – well, you've not withdrawn it today, so implies that dividend policy continues to be the same.

And I think here just the question we get most often on our side is if it makes sense really now for Fortum to continue defending the dividend at 1.10, which is €1 billion going out every year and I think people wonder if that makes sense when they see that you have, on the one hand, really fantastic investment opportunities in wind, solar, storage, hydrogen, mobility you talked about today, recycling and so on. It might be one of the best opportunity sets for investment of any industry or sector in the current wider market environment. But on the other hand, you've got this very tight balance sheet. You've got the negative watch on the credit rating, maybe cash flow headwinds in Russia when the capacity payment stepped down. Now also headwinds on power prices that you talked about today, FX, a possible deep recession as well.

And I'm just wondering – looking at all that, Markus – what are your thoughts about that kind of ironclad commitment on the 1.10 and do you see a trade-off between continuing to pay out that billion euros a year versus increasing the investment in the longer-term earnings capability of the business? Thank you.

Markus Rauramo

Okay, thank you Sam. I'm very happy to answer this question in the CFO capacity and I'll definitely hand over to Pekka to answer in the CEO capacity the same questions. But with regards to strategy we continue to pursue the strategy of being a strong player in clean energy and sustainable materials and we have invested accordingly and continue to do so. And like Pekka said, we are very happy about the strategic outline that Uniper gave earlier this year.

With regard to the dividend, what we have been pursuing with our business and our activities is to make good investments back on the competencies and the platform we have to generate stronger earnings going forward. We understand that our investors appreciate the stability and predictability of the dividend, but of course in the long term we continue to look at what is the earnings generation and over the long term we strive to pay them 50 to 80% of earnings per share, and we will, all the time, continue to evaluate the larger picture and the context of how things are going around us, but we do understand and appreciate the need for the stability and predictability. Pekka, do you want to say the final word?

Pekka Lundmark

Good morning, Sam, as well. I think Markus put it very well and I have very little to add. The dividend stability is quite important to many of our owners. Your input is of course very valuable and what I do want to emphasise is that of course we are following the situation all the time and in the big picture dividend is a consequence of successful business results balanced with potential investment plans. I mean, that's how it will have to be.

The big question, of course, will now be that where will the power prices go from here? How deep will the recession be and how that will then affect our results? And of course, we need to balance that development with the dividend decision in the future. Our investment opportunities and the very important goal of defending the credit rating.

Sam Arie

Okay. Thank you both very much for that answer. It's very helpful.

Operator

Thank you. Our next question comes from the line of Vincent Ayrat from JPMorgan. Please go ahead. Your line is open.

Vincent Ayrat

Yes, good morning everyone. I hope you're safe. Bouncing back exactly on the outlook for power prices, there is quite some debate in the market regarding the direction for gas prices, especially knowing that storages are already pretty full at this early stage of the year, so I would be quite interested in hearing basically your personal take regarding gas prices in the next six to 12 months.

Still staying on power prices, your hedging has increased by €1. I know these amounts are rounded so it's quite difficult, but that would imply a fairly high achieved hedge price in Q1. So I would be very interested in knowing basically what is your estimate without the rounding, so we know the average hedging price you achieved in Q1 and how did you do that? To try to understand the sustainability of such a performance would be very interesting.

And then last question, regarding your disposal programme, Covid has little impact on your business so far. You said so, and so far we haven't seen any issues on the nuclear generation unlike some of your competitors. But it has some impact on the investment environment and potentially on the capacity to deliver on disposal programme in good terms. So I would be very interested in your views on that as you're close to the matter? Thank you.

Pekka Lundmark

If Markus takes the disposal and hedge question. When it comes to gas price estimate, of course we have our own models and we try to understand where it would be going from here, but we will now when we are going to be with Uniper significant player in the gas business as well, we will apply the same principle as of today, at least as we have had for electricity prices that we do not publish our forecast and we do not comment what our expectations for the future prices would be. I commented in my opening remarks briefly, that what has been driving the prices down obviously and that's all we're going to say about that at this point in time.

Then of course, going forward when we deepen our discussions with Uniper, we will then need to agree together with them that in what way we will then position our comments, market comments in the future. But Markus, if you take the hedge question and then the disposal situation.

Markus Rauramo

Yes, I have to say that I'm also, let's say that was positive from my point of view as well that we were able to even lift the hedge prices. But that was on the back of good area price performance and good optimisation. I wouldn't say there was anything special on the Fortum part on the hedges, so I think you can look at where the markets are bought for

the system price and area prices and deduct from that going forward, that what is our capability. Of course we do financial optimisation on top of that and do some proxy position taking, but the larger impact was from the area prices.

For the disposal programme, first of all, I would say that this is a strategic review, so there's no decision with regards to the assets that we have mentioned, the Baltic assets, Polish assets and [? 00:53:05] what to do. But we are going through the review. We have during these Covid times we have actually closed two transactions about the wind divestment as well as the EV charging network divestment. So I would say that we can say that the market is there and having said that, also for the assets that are under strategic review there seems to be continuous, unsolicited interest. So even if we are not marketing these assets, we continue to get inquiries. And what we can read from that is that investors have liquidity that they want to put to work and the central banks and governments are making sure that the financing conditions actually are quite good in the market and again, we have seen that in the record high, for example, bond transaction volumes during the year.

Vincent Ayrat

Thank you.

Operator

Thank you. Once again, ladies and gentlemen, to register it's 01 on your telephone keypad. And our next question comes from the line of Lueder Schumacher from Société Générale. Please go ahead. Your line is open.

Lueder Shumacher

Yeah, good morning. Lueder here from SocGen. Quite a few questions from my side. There are quite a few moving parts, so let me make the most of the absence of the two-question rule that seems to be in place everywhere else. This one is on the snow balance, which, Pekka, you called extremely high. Is there any way you can help us to quantify that?

The second question is on the amount of fuel switching that took place, you said 80 million tonnes has been avoided, of carbon CO₂ that has been avoided, due to fuel switching. Was this a number for Q1? Is it year to date? Just, if you could give us the time horizon. You might have mentioned it, but I probably missed it.

And also, Pekka, and Markus as well, how do you explain the drop in the long end of the Nordic power curve? Just your personal opinion. Is it just sentiment on the short end taking over? Or is it really realistic that we are still going to

have an impact from Covid-19 well beyond 2021? And also on the rather big difference in the average achieved power price between yourself and Uniper, is that mainly due to structural reasons? Are you in a much better position to exploit area differences than Uniper is or is there any other reason?

And lastly, perhaps also most hopefully, your dividend policy as you made a point that it remains intact, there's two elements in there, one that you always stick to, which is the stable, sustainable and over time increasing element and then there is the rather more flexible 50 to 80% of EPS which doesn't always apply. It certainly hasn't in the past. Can you confirm that we should look at the €1.1 dividend as the floor for the future? And that's it for now.

Pekka Lundmark

Well, if I start and then – if I take the snow question and the dividend question and then Markus takes the rest. But the 80 million tonnes, and I'm looking at my colleagues in the room, I guess it was the annual figure for the whole of 2019 compared to 2018. Yes. So that is that question.

The snow balance question, we are not starting now a new policy of reporting snow balance. There are some resources through which that can be monitored or estimated, but those are equally available to everyone and we are not commenting those. And the reason I mentioned it now was that this is an unusual situation where the spring flood is quite a lot delayed and one should not draw conclusions from the fact that the current reservoirs are on an average level, that that would be somehow an indication of the coming hydro volumes. That was the reason why I mentioned it.

And then the dividend. Your question was, is €1.1 an absolute floor? I think I would like to refer to Sam's question earlier that both Markus and I answered. And of course, dividend in the big picture is a consequence of successful business. And now in this type of situation in the world where there is so much uncertainties about where the economy is going and how deep the recession is, of course it's difficult to say that where the power prices will go and where our result will go and that's why there are no automatic floors that would apply in all possible circumstances.

We would certainly hope that we would not need to cut the dividend, but in the big picture really strategically you should look at the 50 to 80%. That's roughly where we believe that for this business a good balance is between returning money to shareholders and then being able to also make sure that you can invest in new growth. But Markus, if you take the power price questions.

Markus Rauramo

So what I read in the Nordic forward curve is that it is reacting to the— First, it reacted to the commodities drop in the early part of the year. So Central Europe continues to be the price anchor and it's the gas condensing or coal condensing short run margin of cost that drives and then market extrapolates from that. That's my main reading for it. Then as we know, the question about the interconnections, the question about Nordic capacity balance, et cetera. All these are impacting, but I do not read more into that than what I mentioned.

Good question about the Uniper/Fortum difference in achieved power prices. My main takeaway from that and what would be my main guidance is that the Nordic portfolio is different for these two companies in the sense that Fortum has the Finnish exposure with much higher area prices for the time being.

And then on the dividend policy I will still elaborate. So if we take from our investors that stability and predictability is appreciated. Finally, also is sustainability. So we do consider in the long run that the level we are paying, or recommending to pay, that that has to be built on a sustainable basis. So we look at that and then the three dimensions: balance sheet, dividend, capex, and then we look at what is the relation between these.

And then then what comes into play of course, is the portfolio restructuring track record that we have. So when we look at the capex possibilities for example, then the portfolio restructuring has played a big role. If you look back at the last five to ten years, especially in the most recent term, we have made huge investments on the back of releasing capital from activities.

Lueder Shumacher

Okay. Thank you.

Operator

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

Peter Bisztyga

Yeah, good morning. So two questions from me. Firstly, on leverage targets. So Uniper had a 1.8 to 2x net debt to EBITDA target. You have a 2.5x target. So can I just confirm it's right to assume that whatever new target you put in place, it certainly won't be higher than your existing 2.5x on leverage?

And then on Russia. Russia seems to be somewhat behind Western Europe in terms of the spread of Covid. I was just wondering, I know you spoke a little bit earlier about Russian demand and prices, but I was just wondering if you could give us a bit more of a real time update on how your day to day operations have been faring in Russia during May; maybe what you've seen on power demands in the last couple of weeks; what you've seen on power prices in the last couple of weeks? Thank you very much.

Markus Rauramo

I start with the leverage question. So categorically, I would say that the business risk perception was lower for Fortum and higher for Uniper, and when you combine these two and we want to keep the same rating, then logically the corresponding leverage should be lower than what Fortum was targeting.

The difficulty now is that our definitions of EBITDA are somewhat different, depending on how the provisions and provision releases show up on the EBITDA. That's why we took a time out now in defining. But what we actually look at, is that what are the ratios that are commensurate with a BBB flat rating given the combined business risk profile. And there the number that at least I read that the rating agencies follow very closely, is the FFO net debt number, and that we know from their reports where we should be, and that's what we are targeting and then we back calculate roughly what net debt EBITDA number should be.

But we will get back to that, but we observe this on a monthly and quarterly basis that where all the different ratios should be. And where are we heading and look at the timelines that rating agencies have given us to be at the right level.

Pekka Lundmark

And the Russian power demand it will depend on oil production restrictions and then of course, Covid-19, which currently looks quite serious in Russia how that will affect the overall economy and industrial demand. We are operating in areas where, from our point of view, demand is heavily coupled with the level of industrial activity, but it is not possible to produce or comment any estimates as to where it will go. The situation is quite uncertain at the moment.

Peter Bisztyga

Okay. There's nothing there you can tell us about the last couple of weeks, say?

Pekka Lundmark

No, I don't have any information about that.

Peter Bisztyga

Okay, thank you.

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

Hello, thanks for that presentation. I have three questions. The prices, just on Uniper and just thinking about what the limits are in terms of what you could do over the next 18 months or so. I'm not asking you what you will do, but just what the limits are in the sense that when you announce the transaction with Elliot and Knight Vinke back in October, you said you wouldn't put in place a domination or squeeze out agreement for at least two years, but can I just check what the limits are in terms of where you could go with your shareholding? Just buying in or off market here? Are there any limits in terms of how you could go, how high you could go through those purchases over the next 18 months or so?

The second question, just following up one of the points earlier about nuclear. You didn't see much of an impact or any impact really on your nuclear production in Q1, but it did look from the April production data for the Nordics that there were some meaningful drops in nuclear production in April. I wouldn't want to necessarily draw too much into just one month's data, just because it can be volatile and shutdown schedules at different times, et cetera, et cetera.

But I just wondering what your experience was, whether you were seeing any impact from the drops in demand on your ability to operate your nuclear plants, which is normally very good, very high load factors during the peak of the crisis so far.

And then the third question is just – it doesn't seem that relevant in the scheme of things – but I just happened to notice in your City Solutions you talked a bit about long-term margin. Your long-term margin for comparable operating profit in City Solutions has quite a big drop from 2019 levels to the long-term margin. It's down about 30/34 million and obviously you've sold – you've done a divestment equivalent to about 10 million – but I was just wondering what was feeding into that quite sharp drop in how you see the long-term margin comparable EBIT for City Solutions? Maybe it's future disposals you're assuming or it's something else, but it's quite a big delta. So it'd be interesting if you could answer that. Thank you.

Pekka Lundmark

If I take the Uniper question and Markus if you take the nuclear and City Solutions. So I mean, look, it's quite simple. We have committed of not entering into a DPLTA or a squeeze out during this year or next year, but that's really the only commitment we have made. So we have completely free hands when it comes to operating on the market, either through stock exchange or bilaterally. There are no limitations and we are not going to comment what we might or might not do. But there are no other limitations under the DPLTA and squeeze out.

Markus Rauramo

And therefore, the nuclear production, that's something we do follow very, very carefully because nuclear safety and security are paramount for our operations. And now this corona situation actually, if I just say what has been on top of our mind, is that we can run operations safely, well and safely, and have all the shift arrangements in place in a good way, and then get the people to do the annual maintenances. And there, some of the annual maintenances have been adjusted so that it can be ensured that all the works can be done and I think that applies for all the operators that the work can be done in the exactly right way with the right people and right parts. And as we know, corona has impacted movement between countries, so there is good and tight dialogue with the authorities on the arrangements how to get the people doing the maintenances into Sweden and Finland.

Then for the City Solution margin. Indeed, there was a hit and the factors were the heat volumes, power, prices and also heat prices in Norway because they are determined by power prices and then a very big part was the divestment of Joensuu. And then partly impacted in the recycling and waste solutions due to the business volumes that are impacted by corona-related drop in activity of the recycling and waste solution customers.

But on the heat side, I would say that what we did observe is that we had in some parts of our operations the warmest winter, if not in measurement history, but at least in the last 100 years and that does impact the heat volumes.

James Brand

Thank a lot. Just, if I may on that final answer, is the weather effect not in the long-term margin though, all the other factors go into to long-term margin, but not the weather effects, or the weather effects are also in there?

Markus Rauramo

Yeah, I'm speaking now about the delta – the 34 million delta for the quarter. In the long term, and this we know very well, that the business is sensitive, first of all, it's quite seasonal, especially the [01:10:53] business is quite seasonal. So how the winters, the autumn, winter and early spring play out has an impact on volumes, but also even intra-week and intra-month variances will impact what units are being run and operated. So my experience is that every season is different and you cannot say exactly that this is the standard template, how things turn out, but we can say that weak economy and warm winter is not a good thing for the business.

James Brand

Thanks, that's all.

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. Great presentation, but I would like to ask from Pekka Lundmark, so that you have now been here some five years and when looking at these past years, is there something you would actually like to do differently by having a second chance or is there something you would actually not able to do in Fortum? And secondly, I mean, for example, Vattenfall does have a ROI target of 80% or even better, so do you think that 80% is realistic for a power company operating in Nordics or in German market?

And lastly, if you are going to get rid of CO₂ emissions, you practically need to divest Russian operations. So is that kind of a realistic scenario in the future, the divestment of Russian business? That's all, thanks.

Pekka Lundmark

These five years, I mean, of course, if you would know the market development in advance, you would do a lot of things different. But of course, the big question is Uniper. And I continue to be of the opinion that it was the right move. If I would do something differently there, I would definitely seek ways to do things faster, because the whole project obviously when we look at when we started it and where we are today, it has taken a much longer time than we thought. So finding ways to implement it faster and get faster into strategic alignment would definitely be something that I would do differently. But the case as we are now seeing from these financials, remains strong for Uniper. And of course, now we have the Covid situation which has pushed down equity values everywhere, but for the last five years, we have had an average 20% total return on shareholder. So from a financial point of view, I'm pretty happy with how things have gone.

Markus Rauramo

Okay, and if I comment on the return on investment target. One thing is how we define a Group level target now when things look very different, but what we can repeat, as we have said earlier, that typically when we do investments, we target low to mid-teens type of project returns depending on country and depending on business. And that we can say that that has been achievable and that we have been successful with our investments in the different businesses with these types of parameters. But that does take skill, determination, good project development, being able to identify good locations, have great procurement, and be able to be selective in what you invest in the various businesses.

So not commenting on the exact number other than that we have typically had double digit return targets for our projects.

Pekka Lundmark

But it very much depends on what type of assets do you decide to be in. If you are in contracted wind for example, the profile is completely different from being somewhere which is more risky. This is something that will be a central part of this, what we call strategic alignment with Uniper. That will result in an asset portfolio and that portfolio will then

lead the new financial targets. Our profile is different from that of Vattenfall and that's also reflected in the fact that our target has been different. We did achieve the 10% return on capital target that we had last year.

Basi, you had a question on Russia. Can you please repeat that?

Pasi Väisänen

By looking at this kind of CO₂ emissions, so if your target is to reduce the amount of emissions on absolute basis, in practise there's no other way than divest Russian operations. So is it a realistic scenario in the future that we are going to see a kind of divestment in Russia? Thanks.

Pekka Lundmark

Well we are of course not going to comment in advance that what we might have divest and what we might not divest. What I do want to point out this that we have built a modern gas fired fleet in Russia that has acted as a central vehicle for reducing emissions in Russia because that has taken a lot of market from old coal-fired power plants and there is still some more potential to do that in Russia. And then the other thing is that we had the largest renewables, i.e. wind investor in Russia, so that way building new CO₂ free capacity of course is very important for creating capacity that we will then be able to reduce emissions. But we have to remember that these effects are visible on the system level and then it's a different thing that who owns which particular power plants. We have a strong interest to grow in renewables in Russia going forward, and it is unrealistic to assume that we, as one company, would somehow be able to change the fact that Russia will be dependent on fossil fuels for quite a lot of time.

We will invest in renewables. We are very interested in coal to gas switching, as we have done. We may see things like that in the future. This is one pocket of things and then the other which is a separate question, is then the portfolio strategy that which assets should each company own.

Pasi Väisänen

Great, understood. Thanks.

Operator

Thank you. Ladies and gentlemen, just as a reminder, please limit yourself to two questions at a time. Our next question comes from the line of Liris Therman from Carnegie. Please go ahead. Your line is open.

liris Therman

Thank you and hello. This is liris from Carnegie. Firstly, how do you see the Nordic power demand development in a recession environment? So far the demand hasn't really come down as you mentioned, but in the financial crises the demand fell 5%. So do you think the current situation differs a lot from financial crisis?

And then my second question is that when do you expect the CEO recruitment to be finalised? Thank you.

Pekka Lundmark

Well, the CEO recruitment is in the hands of the Board, so neither Markus or me is in any way a decision maker there. So unfortunately, you need to address that question to the Board.

Then the Nordic demand, obviously that's a very central question for us, but we are not in a position to publish any forecasts there. You know as well as we do how it went in the financial crisis. Nobody knows how deep and how long this recession will be, so that's why it is impossible to estimate that where this could be. We did see, as I mentioned, quite big drops in large European, southern European markets when the crises really hit. Hopefully, we would not need to see that type of hits in the Nordic markets and so far, we have not. And as I mentioned, actually the April power demand was slightly higher than in April last year, but of course, we are an economy that is heavily dependent on export industries. There's a lot of predictions that the real hit to the export industries is only to come later this fall. And of course, that will have then consequences to the power demand.

liris Therman

Thank you.

Operator

Thank you. Our next question comes from the line of Sofia Savvantidou from Exane. Please go ahead. Your line is open.

Sofia Savvantidou

Yes, hi, thank you for taking my questions. Just a couple of follow-ups. One is on the comments you've made on the decarbonisation. You said that your strategic alignment with Uniper will also include some sort of decarbonisation target or plans. Considering that Uniper already has a public decarbonisation plan and that you also do 99% of your generation as you said was carbon free, I'm just wondering exactly what are you hinting there and sort of organically doesn't it look like there is much more that can be done. As you said, you cannot single-handedly change the fossil fuel mix of Russia any more than Uniper can change out of Germany. So are you suggesting that we could be seeing further disposals of some of the more carbon-intensive assets in the portfolio?

And the second question around leverage and credit risk and, I guess, also part of the business portfolio, in showing your financial net debt definition you include margin liabilities and margin assets. I guess there is a few tens of billions of exposure in trading from Uniper's global commodity business that doesn't really have much in terms of margin exposures. So maybe financial net debt doesn't capture all of the credit risk and all of the cash flow risks that you have with the Uniper deal. Just thinking how do you think about that? Are there other metrics that you are thinking to evaluate? The credit risk profile? Or how do the credit agencies discuss with you about that now that your overall, I guess, credit mix is changing?

Pekka Lundmark

Thank you. On decarbonisation, so we are of course a company that has a very high ambition level in climate and in decarbonisation, and the fact that we now have become owners of Uniper does not change that. We continue to believe that it's a good thing for climate that Uniper has an owner like Fortum and as I commented in my opening remarks, we have already seen quite strong and positive climate-related moves from Uniper, including the shutdown schedules for all old coal-fired power plants and the carbon neutrality target for 2035 for the European generation.

The point here is that until now, these two companies have had separate climate targets. Now we want to, as part of the strategy discussion and the asset strategy discussion with Uniper, we want to have a climate as one of the top priority items on the agenda so that we will create a joint target. That is the whole point. And of course, we will then look at the entire fleet of these two companies, not only power generation, but also heat. And we will also look at, as was discussed in the earlier question, the Russian assets that what our strategy will be there. And all of this will then lead to something that can be communicated as a joint target. And of course, I will not start speculating here on any

disposals. We have seen both disposals and acquisitions in the past and most likely those will be part of the game also in the future.

Markus Rauramo

Okay, with regards to leverage, it's a very good question. We have -- as long as I have been around and my understanding is that also earlier -- we had a very tight dialogue with the rating agencies. And down to the level of understanding each line item and how the rating agencies treat them when they look at our credit. So when it comes to definitions like net debt EBITDA, or FFO, net debt, then I think we have really good transparency on that.

And then I would say that the items that you mentioned, typically they are treated as business exposures and they form, if you will, more part of the business risk than the financial risk profile, so the impact can be found there. But key for us is that we have a good understanding and we communicate very openly what's behind each item with the rating agencies and with these definitions we actually tried to be sure that we are quite close to how the rating agencies look at our numbers. So we should be rather going to the direction that it's easier to track how they think through our numbers than drifting further from that. So I'm quite comfortable actually with the definitions. Now we just need to get the other components defined. But what I said earlier about what is the direction looking at Uniper's ratios, our ratios, and what was required, then probably the BBB flat area can be found between these numbers.

And that we, again, the triangle of dividends, capex, balance sheet, this we observe continuously and also communicate with the agencies.

Sofia Savvantidou

Okay, thank you very much.

Operator

Thank you. Our next question comes from the line of Pierre Dzieciolowski from Citibank. Please go ahead. Your line is open.

Piotr Dzieciolowski

Hello everybody. Thank you for the presentation. I have two questions. The first one is, can you please give an update of where you are with the Baltic CHP asset disposals and if you can provide any kind of a targeted multiple range you would expect for this type of assets? And then on the pace of deleveraging process, given your commitment to the dividend, and kind of a headwind you face on the power prices as well as the CSA payments in Russia. Is it fair to assume that in order to bring it quickly in, let's say, two or three years down to your targeted level, you will need some disposals, and if so, which areas we should be looking at? If you can maybe give a bit of a hint there.

Markus Rauramo

Yeah, so with regards to the announced strategic reviews they are concerning our Baltic business in Estonia, Latvia, Lithuania, Poland and then the Järvenpää business. But the fact that these assets are under strategic review is not the conclusion that we would be divesting. So at the moment we are evaluating what would be the good future for these assets.

Like I said before, even if we have not put these assets for sale, we continue to receive unsolicited interest for these assets from different directions, and there seems to be good appetite for stable, strong, well-invested assets and we have done transactions also at good levels during the corona times.

Then, with regards to where should we be with our balance sheet? Going forward we are BBB flat rated but with negative outlook, so ideally of course this outlook should go to stable and the rating agencies have respectively defined the timelines when we should be there. But also, these timelines are not exact, but rather saying that you need to be on track where it's visible that you are at the correct ratios in these timelines. So I would basically leave it at that and just repeat that we observe all the different items: cash generation, cash spend, dividends, capex and deleveraging.

Piotr Dzieciolowski

Okay, thank you very much.

Operator

Thank you. Our next question comes from the line of Firmino Morgap from GLT. Please go ahead. Your line is open.

Firmino Morgap

Thank you. Just the first question is on Russia. What you think could be the further impact from currency and going forward how do you see the earnings development in Russia?

Markus Rauramo

Okay, so the currency impact we have seen, both in the translation differences in the balance sheet; that's one thing. So asset values are going down when we look at the divisional results as well as the rouble denominated result is then translated into euros. And at the same time there are positive impacts of weakened currency. Also, our customers' competitiveness, let's say, when they are oil, gas, metals, chemicals, industries, their competitiveness in the global market improves, so there is a positive impact on the competitiveness.

And the final point I would make, that when we look at what are the drivers for the currency movements, oil prices, gas prices, there's also an impact to the bond yields and consumer price indices that then impact over time the CSA payments. So even if a weaker currency is negative for us outright, then there are some mitigating impacts over time.

What I would say for Russia in general is that we have – counting in roubles – we have achieved and clearly exceeding actually the targets we set originally for our Russian business when we made the investments and investment decisions back ten years ago. So all in all, we are very satisfied with how the operations have been run and also that the whole framework of CSA contracts has worked exactly as has been agreed with Russian government a very long time ago.

Pekka Lundmark

I mean this is probably clear to most of the audience, but this is really translational only. There is no transactional exposure euro/rouble in our case.

Firmino Morgap

My second question is regarding your net debt definition, and I mean if I look at your numbers that you've disclosed, you have these other provisions of 4.5 billion. But then when I go to Uniper's balance sheet, actually the provision that they have – they call it [inaudible] provisions is like more like 5.2 billion. Why this provision is not accounting on your net debt definition?

Markus Rauramo

Yeah, so what we have included in the net debt definition, as I said and clearly communicated that we have the net of the nuclear assets and provisions and then the other asset retirement provisions. So to get actually to, if you go from the balance sheet numbers to the net debt definition, you have to look at also the asset side. And I think we're happy to walk through in more detail by the IR team if you want more detail, but these are the two main items. So again, I think this is in line with the rating agencies' thinking and very transparent, but it's good to remember that it's the net of these items.

And then the last item, I'll mention again, which is that there is a unrecognised part of some hundreds of millions of nuclear assets in the waste funds due to that we can only balance it and recognise the part of the assets that is at or under the amount of provision.

Firmino Morgap

I will follow up. It's just, I was looking at the gross of course and when I look at your gross, that once you consolidated Uniper is 4.2, but their balance sheet is like 5.2, so I was just wondering why there is such a big difference but I'll follow. And just a follow up to this one, in the cash flow statement really from Uniper, the only cash that you upstream is dividend, right? But then when we try to match these with the cash flow statement, there is no way that we can get just for the net to these upstream of dividends.

Markus Rauramo

Okay, so you are correctly highlighting a key point that for Q1 we are still accounting for Uniper as an associate, but as a subsidiary on the balance sheet and then from the profit and loss point of view then it's also profit and loss consolidation in Q2. I tried to go through the main items on the cash flow statement so there are several moving parts with regards to for example, the Uniper share transaction, netting of the cash and deducting the second tranche of the payment. But also, if there are details then our IR team is very happy to help with that.

I have to say that I'm personally very pleased about the disclosure we have in the notes in the quarterly report, so I think we can provide to anyone who wants particular information; we can guide to the right points there.

Firmino Morgap

Okay, thank you so much. I will follow up. But do agree that really going forward, then debt consolidation of free cash flow has to match the upstreaming of the dividend, right? Even if you consolidate the P&L, there will be then a line item that offsets that P&L consolidation to match the cash upstreaming.

Markus Rauramo

I think I understand your question and you can talk with the IR team how we handle that, but for the time being dividend and going forward, the cash, and then you are correct that there is dividend payment and dividend payment to the minority owners as well.

Firmino Morgap

Okay, thank you.

Operator

Thank you. And our last question comes from the line of Artem Beletski from SEB. Please go ahead. Your line is open.

Artem Beletski

Yes, hi, this is Artem from SEB. Two quick ones from my side. So first starting with Russia and renewables. Given the fact that some bigger projects will be completed during this year, do you see any capital recycling opportunities on that front? And then the second question relating to City Solutions and you elaborated that Norwegian heat prices were impacted by low power prices. Could you maybe talk about the pricing dynamics in other regions? So is it pretty much indexation or also very stable earnings and pricing profile now for other regions where you are having district heating business?

Pekka Lundmark

Thank you, Artem, if I take the first one and Markus takes the City Solutions question. There is clearly capital recycling potential. Then another thing is that what we will actually do, but the key thing here is that we are through the joint venture building now almost 2,000 MW of wind, and all indications that we have is that these are assets that are in high demand. It is clearly a project that is value creative. That's the foundation; showing that this strategy has been the correct one. We have said that our maximum equity exposure from the parent company's 15 billion roubles and it's easy to calculate that staying within that limit and building 2,000 MW of wind, even though we have local leverage on a quite high level does require some capital recycling.

This will then go also into the pocket of the strategic alignment with Uniper that how we will allocate our assets, how much do we want to own, how much do we want to recycle? But in any case, regardless of which ways we will monetise it, this 2,000 MW of wind is a very valuable asset to have.

Markus Rauramo

Okay, then, with regards to the heat businesses. So indeed, in Norway, connexion to the electricity price in Finland free pricing, but typically over long term, reflecting the costs and capital of course of investments in the Baltics and Polish operations. I would say the basic formula is that you present your costs, total costs to the regulator, who then determines what is the allowed cost for heat.

And then in Finland: well, pre-pricing. And in Sweden there are different alternatives but what we have done in Stockholm Exergi is a so-called peace dialogue where we discuss with the stakeholders and find what is the right level. There is an alternative also but we have taken the peace dialogue route. But your conclusion is right. Stable, predictable, long-term cash flows with good visibility.

Artem Beletski

Alright, thank you. Very clear.

Operator

Thank you and as we have no more questions, I'll now hand back to our speakers for closing comments.

Ingela Ulfves

Thank you so much for all your questions and thank you, operator, also. We seem to have some questions on the chat, so Måns will ask those now, please. Go ahead.

Måns Holmberg

Yes, so firstly we have a question “There has been a lot for mistrust inside Uniper towards Fortum, on the employees’ side and former executive lead. What are the chances for successful common strategy at the moment? And then the second question regarding Norway's oil fund that placed Uniper on watch lists for possible divestment due to coal capacity. How does this affect Uniper and is Fortum going to do something about it?”

Pekka Lundmark

Well, our goal is now clearly, after this ownership changes and supervisory board changes, that now cooperation starts and I'm hopeful we have all the time improving relationship and position with the company and I see no reason why we would not be able to find an arrangement that would be good for Uniper, all its stakeholders, and very much including employees. We have an ongoing dialogue all the time and it is improving all the time.

Then when it comes to the Norwegian oil fund question, I think it's fair to assume that investors will be growingly interested in the decarbonisation targets of their investment companies, and that's why it's really important, as I have now said several times, that we and Uniper publish joint decarbonisation targets which are ambitious enough. As I have said several times now, we have a very high ambition level, we do want to create a coal exit plan for all coal operations, and in addition to that, we want to continue to invest in renewables, invest in recycling and invest in decarbonisation overall. It's really important.

Having said all that, I just for the sake of argument, want to repeat what I said earlier, that European energy and industrial emissions are driven down and determined and defined by the ETS system, not by which individual plants operate, so that's why we would encourage and ask also investors to join us in our efforts when we are discussing in Brussels with the European Commission and with the member states when we are trying to lobby them to tighten the ETS system because that is the systemic way to reduce emissions and not just move them from one place to another.

Måns Holmberg

Yes, then we have a question: could explain the positive working capital in Q1/2020 and what are the expectations then for the full year and any possible Covid impacts on working capital?

Markus Rauramo

So the working capital was reduction of trade receivables due to lower prices. And for the rest of the year, we do not forecast that. But as we have seen in Q1, there may be changes due to the market conditions.

Måns Holmberg

And then we have actually two questions relating to hedging. So one is on the comment on Fortum's hedging position for 2022 and onwards and then a question relating to, will Fortum and Uniper now start hedging as a combined entity, or separately?

Markus Rauramo

So for year 2022, the Fortum part we do not disclose. So we disclosed the 2020 and '21. Uniper has disclosed the 2022 part and that's 15% hedged at €23. Uniper is a separate listed company and it has its own organisation and we operate for the hedging as two separate entities for the time being.

Måns Holmberg

And then there were also here on the chat a few questions relating to the provisions and aligning of accounting principles between Fortum and Uniper but I guess we have discussed them quite a lot, so if they are still unclear, please contact the IR team.

Ingela Ulfves

Okay, thank you so much. Then it seems that we don't have any further questions. Just as a reminder, as we now have aligned the financial reporting schedule for this year, we will publish our second quarter results on the 19th of August, which is one week after Uniper has published its half year report on the 11th.

Thank you everyone for your participation here today and on behalf of the whole Fortum team, we wish you a very nice rest of the day.