

<b>Corporation:</b>	Fortum Oyj
<b>Title:</b>	Q3 2020 Earnings Call
<b>Speakers:</b>	Markus Rauramo, President and CEO Timo Karttinen, Vice President, Growth Projects Ingela Ulfves, VP of IR & Financial Communications Måns Holmberg, IR Manager
<b>Date:</b>	17 November 2020
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## Ingela Ulfves

Good morning, everyone. My name is Ingela Ulfves. And on behalf of our IR team, I welcome you all to Fortum's webcasted news conference on our third quarter results.

Due to the COVID situation, we are wearing face masks today based on our internal instructions. This event is being recorded, and we will publish a replay of the presentations after the webcast.

With me here today are our CEO, Markus Rauramo; and our Acting CFO, Timo Karttinen, who will present Fortum's Q3 figures and the group's performance. After the presentations, we will open up for questions. This time, we have a different solution for the Q&A session as we are using Teams now.

If you plan to ask a question, please follow the event through the Teams link shown below on the webcast. You are still also able to ask questions on our webcast chat. And without further delay, I hand over to Markus to start.

## Markus Rauramo

Okay. Thank you very much, Ingela, and welcome also on my behalf to this interim report webcast. The third quarter at Fortum was characterized by continued uncertainty caused by the COVID-19 pandemic.

After a quieter summer, the second wave of the pandemic spread through our operating countries and requires continued perseverance from all of us. It is already clear that the whole year 2020 will be impacted by COVID-19. Although there has been recovery in commodity prices and certain economic indicators, the global GDP this year will decline, and it is still unclear what the duration of the pandemic and final impacts on the economy will be.

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This is a clearly disruptive situation. And as an international company, Fortum is by no means immune. However, so far, we have managed well and had adverse effects mainly only in Russia. And I want to say thanks to all of our employees who have been extremely dedicated and have done a great job during this difficult year.

I am proud that we, for example, managed to run the large annual maintenances across our sites, given example from Loviisa nuclear power plant, which was done safely and in a timely manner. During the overhaul in Loviisa, we had more than 1,000 external workers on site, and had a multitude of special arrangements in place to secure everyone's safety.

Elsewhere in the company, all whose job description allows are working from home, and we are putting efforts into ensuring everybody's wellbeing, for example, deploying new tools and developing our leadership practices to fit the new situation in line with our open leadership principles.

During late summer and fall, we have been working hard on Fortum Group's new strategy and on identifying and detailing our cooperation opportunities and benefits with Uniper. I'm very pleased to say that we have been able to progress in the alignment to be well positioned to drive forward the European Energy Transition in the coming years.

As listed companies, both naturally evaluate the elements of the joint strategic direction and cooperation opportunities in their own governing bodies, ensuring that they are in the interest of the respective company and all its shareholders and stakeholders.

With that being said, I look forward to presenting the new strategy and targets for the whole group at our Capital Market Day on December 3, together with Timo Karttinen, and Andreas Schierenbeck, Uniper's CEO, who will discuss Uniper's strategy in the context of the Fortum Group, being one of its 5 segments.

Now, I'll go, move forward and talk about our performance in the third quarter, which typically is the worst quarter for Fortum and seasonally weak also for Uniper. The year so far has been characterized by high hydrology and low Nordic power prices. And the third quarter was no exception to that.

The Nordic hydro reservoirs hovered around historically high levels, and especially, the Nordic system price and Norwegian area prices were very low. In the Finnish and Swedish areas, prices declined clearly less, which is good, since they are the most significant for us. The strong CO2 price support the central European power prices and the spread between the German and Nordic prices remained wide.

I already spoke about the impact on the pandemic on our operations. Out of Fortum's businesses, only our Russian operations continued to experience some adverse effects from lower power and heat demand. In the third quarter, our comparable operating profit was negative due to the negative results in our Uniper segment. The reason for Uniper's negative results was seasonality and a shift in profits between Q1 and Q3 this year.

This is something we highlighted already in the previous quarters. So this was quite expected. It is also good to note that Uniper kept their full-year guidance unchanged. So we expect Uniper's fourth quarter profit to be good. Nevertheless, Fortum's earnings per share for the third quarter were still positive at €0.23, as the negative results of the Uniper segment were offset by the tax-exempt capital gain from the sale of the Järvenpää district heating business in August of this year.

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This type of portfolio optimization is a mainstay at Fortum, and we are also proceeding with the strategic reviews of our Polish, Baltic and Swedish district heating businesses as planned. In all these cases, we are reviewing all alternatives, including possible divestments. Going forward, we will continue to put focus on our balance sheet and securing our overall financial strength. Equally, maintaining a credit rating of at least BBB flat continues to be a priority. Finally, I'm very happy to say that our last 12-month net profit was €1.8 billion, and that translates to an EPS of €2.03.

Then I'll move over to the operating environment and make a few comments about that. If we look at the power demand, we can see that the demand recovered to 2019 levels in many areas in Q3, Nordics actually have been stable throughout the full year 2020. Central Western Europe, including Germany and France, were weaker in the second quarter. Demand in Russia has continued softer and was standing at minus 4% year-on-year in the third quarter, but overall, good recovery and in the Nordics stable throughout the year.

This year, we have been talking a lot about hydrology, which has been somewhat exceptional in all quarters. If you look at this picture and follow the dotted red line against the average, which is the gray dotted line, you can see that year started with very high reservoir levels. This continued in Q1, part of Q2. But then during Q2, the reservoirs came clearly lower than the historical average.

But towards the end of the quarter, again, the reservoirs were above. In Q3, reservoir levels started at 9-terawatt hours above the historical average and ended at 13-terawatt hours above historical averages. And now we are even slightly higher entering the winter season.

Looking at the commodities. Coal started the year weak. The softness continued in the second quarter, but now in third quarter, there has been recovery back to the levels that we saw in the beginning of the year at \$60 per ton. In gas, on the back of strong supply, mild winter, we saw a big drop in the first quarter, gas prices stabilizing in the second quarter, and then recovery in the third quarter on the back of the improved supply demand balance and sufficient storage capacities in different areas.

Looking at CO2. CO2 was softer in the beginning of the year, partly on the back of the strong coal to gas switch on the back of lower gas prices. We saw a sharp recovery after the initial hit also caused by the corona pandemic, strong recovery in the second quarter. And in the third quarter, the sentiment in CO2 has been very strong, also on the back of the tighter EU emission targets proposed by the EU Commission, and we even saw CO2 hitting historical highs at €30.5.

If we then look at how this all has translated into Nordic power prices, if you look at the beginning of the year, the combination of strong hydrology, mild winter, this all pushed down the system price in Q1 and Q2. The high reservoir levels kept the Nordic system price low in the third quarter and also put pressure on the front end of the forward curve as you can see from the picture comparing August and November forward curves for 2021, but very good to look at the area prices.

So when looking at the system, which is the bottom gray line and comparing that to Swedish area prices 2 and 3, and Finnish area price, the picture is very, very different. System price in Q3 has been at €9, Swedish area price €2 and Finnish area prices, which are the most relevant for us, have been respectively at €25 and €33, so quite a remarkable difference compared to the system price. This is important to follow.

How have we then fared against this backdrop? Comparing third quarter year-on-year, Nordic system spot was down 74%, but Fortum's Generation Nordic power price achieved price was actually up 4%.

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In Russia, on Q3, in the markets, the spot has been flat on a year-on-year basis. Calculated in euros, our achieved power price is minus 16% on the back of weaker ruble and lower CSA payments.

Then before moving over to Timo's part, I will shortly go through the divisional performance. Overall, I could say that generation has been stable. Q3 and cumulative results were at a stable level. In Q3, nuclear production was down 0.7-terawatt hours on the back of the scheduled longer outages. But on the better side, hydro production and achieved power prices were higher.

On a cumulative basis, hydro production was actually up 1.5-terawatt hours, nuclear lower on the back of the mentioned longer outages and achieved power prices were slightly down, but compared to the market prices, our achieved price has been supported by the good hedge levels. One thing to note though so is that in generation, the last 12-month RONA stands at 12.6%.

Then moving over to Russia. Russia third quarter was down €13 million, mostly impacted by the FX impact of €11 million. Power and heat production was lower year-on-year. But so was the bad debt provision. So this more or less equaled each other out. On a cumulative basis, Russia is down €47 million on the back of lower volumes and margins, lower CSA payments and FX impact. But last 12 months RONA stands above 10% at 10.7%.

City Solution in third quarter was stable. We had improved results in district heating business in Finland and Norway. And in Norway, the change in the Norwegian krona exchange rate more than offset the negative impact of the lower power prices. The cumulative 9-month result was down €35 million, but that was on the back of the weak Q1, with lower heat sales volumes due to the warm weather, lower power sales prices and then as a result, also a lower Norwegian heat sales prices. And then it's good to remember that the successful divestments of Joensuu and Järvenpää do have a negative impact in the City Solution business going forward.

Consumer Solution continued its very good performance. The Q3 was up €2 million. And this was the 12th consecutive quarter of comparable EBITDA improvement. I can say that we have been able to handle corona well and even during these times, we have been launching new digital services and increasing our value-added service customer base to record highs, so excellent performance from consumer.

Then as the 5th division, again, as a reminder, I will not go into more details and commenting on Uniper's operational performance. And consequently, I do not comment indeed the result development. Uniper published the Q3 report a week ago. And for further details, we refer to that and the presentations and webcasts that the company has had. But as general comments, I can state the obvious. The gas business followed the normal seasonal pattern with the weak third quarter. This was further pronounced by the intra-year optimization of the gas portfolio that was successfully and well utilized earlier this year, clearly improving the Uniper Q1 results, while then resulting in a significant loss in the third quarter.

I also want to shortly repeat the bridge from Uniper's adjusted EBIT to Fortum's Uniper segment operating profit. For Q3 this year, Uniper reported adjusted EBIT of €286 million negative that we record in the Uniper segment as comparable operating profit as a loss of €307 million. The difference relates to that we have deducted Uniper's associated company results of €11 million from their EBIT as they at Fortum are reported below the comparable operating profit line.

Also, as Oskarshamn is a joint-owned company, we also make a correction for Fortum's share in OKG as Uniper fully consolidates it. 43% of Oskarshamn profit is already reported in our Generation segment. These corrections are done every quarter, which means that they will continue to be a difference

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between Uniper's reported adjusted EBIT and comparable operating profit as reported by Fortum in our Uniper segment.

With this, I would now like to hand over to Timo, who will walk through the numbers in more detail. Timo, please?

## Timo Karttinen

Thank you, Markus, and good morning, everybody, and welcome to this call on my behalf as well. I will first go through our comparable operating profit performance in the third quarter. We do not have comparison numbers from last year for Uniper, as we started to consolidate the comparable operating profit only in second quarter this year. Also, as said already, we are not commenting the details on the underlying performance in Uniper segment, but rather refer to Uniper's on commentary and disclosure.

Uniper's contribution to our comparable operating profit in Q3 was clearly negative, with the impact of the seasonality, especially related to the gas business. While Q1 there recorded very strong, obviously, Q3 was clearly loss-making. Overall, our comparable operating profit for third quarter declined €329 million from €153 million last year to a loss of €176 million this year. As you remember, there has always been a clear seasonality in Fortum's quarterly results first quarter and last quarter being the strongest and second and third, the weakest. And now obviously, Uniper's result seasonality will also play here.

Uniper has also confirmed, I said, their earlier full year guidance, which would indicate a strong result in that segment for the last quarter.

The result drivers in Generation were lower Nordic volumes, partly offset by higher achieved price. The relative stability of our achieved price is a proof of the importance of hedging to increase stability and predictability of cash flows and results.

COVID-19 impact is visible in our Russia segment results, mainly indirectly as a consequence of lower oil production that then has resulted in low power demand, lower power margins and lower volumes. The good news is that the COVID impact has been stabilizing and we have also – had lower bad debt provisions than last year.

Russian segment results this quarter by year-on-year mainly down because of the ruble exchange with an effect of €11 million. City Solutions profit was flat, while Consumer Solutions recorded their 12th consecutive quarterly profit increase. Then let's look at some other KPIs in our income statement.

First, a reminder, for some time now, year-on-year comparisons will be difficult due to the changes in how Uniper has been consolidated. So let's run first through that. In 2019, Uniper was consolidated product ownership as an associate with 1 quarter lag in results. In 2020, first quarter, Fortum results included 2 quarters of Uniper associate result, last quarter last year and first quarter this year. All in all, €469 million of profits from associates.

And then, from second quarter onwards, Uniper is being consolidated as a subsidiary. Then in the items affecting comparability for this quarter, we have approximately €290, tax-free sales gain from our Järvenpää district heating operations. So despite the negative comparable operating profit, our net profit was positive at €144 million.

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And even if the – third quarter operating results are negative, when looking at cumulative performance, our last 12-month net profit amounts to €1.8 billion. Then to our financial net debt and main items of our cash flow during the year.

In first quarter we updated our definition of net debt. Here is the bridge from start of the year level of €4.8 billion in financial net debt to the level of €6.7 billion when consolidating the Uniper debt at the end of first quarter. During the year we have our cash flow from operating activities before net margin liabilities of roughly €1.8 billion.

It's good to note that working capital fluctuations will continue to impact the quarterly operating cash flows. Cash flow from divestments has amounted to €1.2 billion. Largest divestments being, district heating operations in Joensuu and Järvenpää as well as Nordic wind portfolio. These cash flows together have more than covered the paid investments of €2.3 billion.

Major part of the investments are related to Uniper shares. We also have strategic reviews ongoing related to our 50% stake in Stockholm Exergi, and our Baltic and Polish district heating operations. Remaining cash flows after payments of investments have covered more than half of the paid dividends, so we have approximately €7.1 billion of financial net debt at the end of the third quarter.

We continue to monitor and manage closely our net debt position and continue to strengthen our balance sheet. Our key priority is to have a solid investment-grade rating of at least BBB flat, and the focus on cash flows continues. We have good access to capital and ample liquid funds of €2.5 billion and undrawn credit facilities of €5 billion.

Our total loan portfolio at the end of third quarter is €9.2 billion. The average interest for the debt portfolio is 1.7% and the average interest for the euro part is 0.9%. We have only modest amounts of loans maturing in the near future. This year, short-term debt of approximately €600 million, and next year, €500 million bond maturities.

Finally, I will conclude with our outlook. In Generation segment, the Nordic hedges, we have 85% hedged at €34 per megawatt hour for the rest of this year. 75% hedged at €33 for 2021. For comparison, one quarter ago, we had 65% hedged at €33 for 2021. Now we also disclosed the hedges for 2022, which are at 40% hedged and at €32.

Uniper has likewise reported their Nordic hedges. And for 2021, they have 85% hedged at €28. One quarter ago, they had the 2021 hedges at 80% hedged at €27. So we have been able to increase hedge levels for next year with relatively good prices.

Please note that we have now updated our estimate for the annual capital expenditure, including maintenance and excluding acquisitions. To be on €600 million level and it was previously on €700 million level. This guidance does not include capital expenditure in the Uniper segment as we have given this originally in the beginning of the year, on the old Fortum level.

And finally, no change to the income tax level, so the estimated comparable effective corporate income tax rate remains to be between 20% and 25%. And now, we would be ready for questions and answers.

**Ingela Ulfves**

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Thank you, Timo, and thank you, Markus. And with this, we will start the Q&A session. So still a reminder, for those of you who now are registered in Teams for this Q&A, please use the “Raise your hand” feature, when you want to ask a question. Måns will moderate the Q&A, and he calls those asking questions one by one.

Remember to keep your microphone muted until your name is called. And when you ask the question, please state your name and company before that. Thank you.

## **Måns Holmberg**

Thank you, Ingela. So now we go over to Q&A, and we start with Pasi Väisänen from Nordea. Pasi, go ahead, please.

## **Pasi Väisänen - Nordea Oyj**

Great. Thanks. This is Pasi from Nordea. So to start with, well, actually, I would like to know that, what was the reason for rather modest Nordic hydropower volumes in the third quarter, especially when the reservoirs have been on record-high levels? And secondly, is this gas-fired power production asset base going to be actually a major part of Fortum’s assets in the next, let’s say, 3 to 5 years period going forward?

And lastly, is it a reasonable assumption that this Stockholm heat could be actually sold during the first half of next year? Thanks.

## **Markus Rauramo**

Okay. Thank you, Pasi. I’m actually very happy to see that we have practiced Teams so much that this worked very fluently. Okay, so for the hydro part, if I take that first. So good to remember – I’m not going to go back to the page. But what you can see there, when you go to the presentation, that the Finnish volume of the Nordic reservoirs is very small. So what happens in Norway, you cannot draw an immediate conclusion what would be reservoir levels in Finland and Sweden.

And then having said that, it’s always a question of how do we optimize the value of the hydrology. So that in short. With regards to gas production, 2 angles, one is that gas will be very important for the energy transition. So in order to integrate to the energy system, all the renewables, all the hundreds of gigawatts of renewables that have to come to replace coal, lignite and also the phased out nuclear, the flexibility from the gas will be needed.

And in the short term, actually good, efficient, low-emission gas units will be very critical for the system. So they will be needed. Having said that, our direction is towards clean gas, and now we have seen that EU also, EU, large EU countries have picked up on the transition to clean gas, which enables actually the former mentioned increase in renewables. So renewables coupled with clean gas make it

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possible to clean the whole energy system, and also couple the sectors that are otherwise difficult to directly electrify.

And then the last question about Stockholm Exergi, as always, when we have been initiating strategic reviews, we are indeed doing a review of various options, how to go forward. Divestment is a possibility, but it's not a predefined outcome of such a process.

## **Pasi Väisänen - Nordea Oyj**

Great. Thanks. I hear you. If I may actually come into this point related to gas [pipe production] [ph] and asset base, is this backup story related to renewables also kind of relevant for Fortum gross asset base?

## **Markus Rauramo**

I think you're presenting a pretty wide question. So once again, with regards to what Europe will be needing is clean energy in the form of renewables and then coupled with flexible gas, both assets and then the ability to actually convert the energy into clean gases and store it.

With regards to Russia, I think it's good always to go back to the situation where Fortum, E.ON, Enel started their investments in Russia. Then all companies invested into gas-fired CSA units. And that was, by far, the cleanest available technology at that time. So all 3 companies who – foreign companies who invested in the Russian system, made a remarkable step in cleaning the Russian energy production. So, significant reduction in both CO2 emissions, greenhouse gas emissions and particle emissions.

Now, our site is already on growing in renewables in Russia. And as you know, we have a very sizable close to 2-gigawatt portfolio wind licensees and partly already finalized rest investments and partly ongoing investments. So our eyes are already on developing the next phase, in also making the Russian energy system cleaner.

## **Pasi Väisänen - Nordea Oyj**

Thanks. That was all from my side. Okay.

## **Markus Rauramo**

Thank you.

## **Måns Holmberg**



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And our next question then comes from Artem Beletski from SEB. Artem, please go ahead.

## Artem Beletski - SEB Enskilda

Yes, hi. This is Artem from SEB. Thank you for taking my questions. 2 from my side. So firstly, looking at hedges for 2021 and 2022, could you provide some color, how much of area price premiums you have hedged already for these years, given the fact that premiums are quite substantial, looking at Finnish and Stockholm situation right now?

And the second question is relating to Consumer Solutions segment, which has been improving EBITDA for 12 months in a row. Do you see current profitability levels being sustainable? And maybe you can open up a bit what has been driving this substantial margin improvement over recent quarters?

## Timo Karttinen

Yes. Thank you, Artem. For the hedges, so we are not providing a split of how much area prices we have hedged. Obviously, the contribution of the area price hedges is in the average hedge price. And, of course, when you look at the current or you look at the historical system prices and the area prices, so it is obvious that there is a large component, if you will, or the Finnish and also Swedish Area 3 and 2 area price components, also in the total hedges, like there is also the similar component, when we run physical spot and sell to spot. So that is obvious, but we are not providing a split of how much there is, the area price hedges in the averages.

## Markus Rauramo

Okay. And with regards to the Consumer Solutions, so indeed, they have – and actually, it's 12 consecutive quarters of improvement. We do not give guidance on what the result would be going forward, but I'm happy to talk about some of the elements that are impacting and what are we doing.

So we have been successful in increasing the value-added services customer base. We have gone past 2 million value-added service customers. At the time of Hafslund acquisition, if I remember roughly correctly, we had something like 1.15 million value-added product customers. Now we have over 2 million. So Hafslund, the Hafslund team, the Hafslund brands brought the very strong competence on the value-added product side, insurances, price gaps, floors, guarantees of origin and so on.

The other side is the efficiency. So we continue, of course, to – both to push ahead with value-added services, trying to increase that, and then also the efficiency of our operations. And on both of these sides, I do think that there is room to go. There are possibilities. We have been able to keep the margins very well. So I think what is striking actually, when you look at the financials now for Consumer Solutions, so even when electricity prices have dropped and we have a large part of spot priced customers, we have been able to keep the margins.

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So that's a great achievement. The competition continues to be very tough. So – whereas, I'm optimistic about our capabilities to build on our strengths, I see also that competition is very tough. And that trend, I think, will continue. So churn levels are high. And we are being very, very careful on following all the time how we are doing against the competition and what is happening in that space. But both positives and also challenges in the market.

## **Artem Beletski - SEB Enskilda**

Okay, very clear. And maybe just coming back to hedging topics also, is it fair to assume that given the fact that presumably liquidity, what comes to area price hedging is not as good as for system market. There is some lower hedges being applied, what it comes to area price premiums. Is it the right way directionally how to think about it?

## **Timo Karttinen**

Thanks. I will only need to repeat what I said earlier, so that we are not giving a split of how much. What I can say, of course, is that they are not going sort of 100% hand-in-hand. So, of course, we separately hedge those products and utilize the markets when we see those best. But there is not more split that I can offer.

## **Artem Beletski - SEB Enskilda**

Okay, very clear. Thank you.

## **Måns Holmberg**

And our next question comes from Sam Arie, UBS. Sam, please go ahead.

## **Sam Arie - UBS**

Hi, good morning. I'm unmuting on Teams. Can you hear me?

## **Markus Rauramo**

Yeah. There's a bit of cracking on the line, but give it a shot.

# FLIK

## Sam Arie - UBS

Okay, very good. So, I only have 2 questions from my side. And, Markus, I apologize, I always ask you about Russia, but I'm going to do it again today. I think you said at the last results that you're waiting for the amendments to the Russian strategic law to go through. In any case, you wouldn't exercise any control over Unipro until those updates have been passed.

And I think I'm right in saying that hasn't happened yet. So, I'm just wondering if you can give an update on progress with that law in Russia. And what investors are asking me there is, if there is any contingency between update in the law and is the asset rotation that may come one day in Russia.

And then, my second question is just more broadly on the cooperation discussions between Fortum and Uniper. You said that, that's the main focus to be progressing all of that. And I'm wondering, if you're in a position to give any quantitative guidance on what may come from the various cooperation topics? Thank you.

## Markus Rauramo

Yes. So with regards to the Russian situation so no updates on the strategic law amendment. But at the same time, it's a good bridge to the next question, the cooperation. So I'm happy about the spirit and the quantum of the cooperation discussions. So we are now organized in several different streams with very large number of people within Fortum and Uniper, who are really looking then to find value creation through cooperation, and then, of course, the strategic alignment as well.

And there, I really have to thank everyone, both on Uniper side and Fortum side, who have been participating in this, because this is not the easiest time with corona being very much virtually present, getting to know new people, understanding what the possibilities are and how to build the way forward. But it's really happening at a very – on a very positive tone. And we know that that we have very competent people with extremely good skills on both companies. We will communicate more about this in the Capital Market Day. So both Andreas and I will then come back to this issue, but I think I'm pleased with how things are now moving ahead.

## Sam Arie - UBS

Okay. Thank you very much.

## Måns Holmberg

And our next question comes from Iiris Theman at Carnegie. Iiris, please go ahead.

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## Iiris Theman - Carnegie Investment Bank AB

Hello, this is Iiris and I am from Carnegie. And thank you for taking my questions. I have 3 questions. So firstly, regarding Russia, how is your wind power JV progressing in Russia? And are you seeing any delays in construction? And can you remind us how much is the wind power capacity increasing in next year? And should we expect associated income in the Russian segment to increase clearly next year due to higher wind power income?

And then secondly, looking at Nordic power forward prices from NASDAQ's website for 2021 and 2022, prices are still down from last week, when thinking about that reservoir levels have been high during the autumn and should perhaps, already be reflected in Nordic power forwards, what do you think is the reason why the forward prices are still coming down? And thirdly, what do you think is the outlook for Nordic power prices in the long-term, given that the share of wind power in power generation is increasing in the Nordic countries? Are we're going to see lower power prices than in the history? Thanks.

## Markus Rauramo

Okay. So if I start with the Russia wind. So I think the work has actually proceeded well. Out of all of our areas, Russia has been the one that has been impacted the most. But still, I would say that the difficulties caused by corona have not been material once. So we have been going ahead quite well with the joint venture plans. The total volume of the wind licensees that we have in Fortum is [1.823 megawatts, so 1,800 megawatts] [ph] in total, and these are to be commissioned over the next – or over 5 years from the outset. So then we talk about something like 300 to 400 megawatts per year. But is next year exactly coming that I don't have in my head unless Timo or Ingela have that.

## Ingela Ulfves

That's actually the 300 plus, 100 in [gross] [ph] that are under construction.

## Markus Rauramo

So 400 in total. Yeah. And we have the details of the to-be-commissioned plants, material, you can refer to Ingela then, she will have the exact numbers. Then with regards to Nordic power prices, in the presentation, you saw also how the forward curve has moved between August and November. So we do see the pressure in the short-term. So my interpretation is that the market is basically extrapolating the current hydrology into the nearest quarters. And – but, if you look at the curve that I showed actually, the August and November levels in the back-end, even of that short period were at the same level.

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Then, of course, we're following very closely the – what is the total impact for us. And actually, in the markets, what we can see quite often is that there's a negative correlation between the system price and the area prices, so system price down, area price up. So the total, as you can see from our hedges, we are – in all of our hedging periods in the Fortum Nordic generation segment, we are above 30%. So we have been able to capture still good levels.

Then for Nordic power prices going forward, the key elements remain the same. So what is good is that the interconnections between Nordics and mainland Europe and UK continue to be expanded. And the expectation is that there will be in 2025, there will be 13 gigawatts of transmission capacity compared to the 7 gigawatts today. So that's a huge capacity addition. Important that we continue to be coupled, and we do continue to be coupled to the continental market where the price anchor continues to be a thermal.

And then the – but impacts and the local area prices will continue to be the local demand supply conditions and the transmission bottlenecks. But we have seen over this year, for example, in the summer, how critical it is that the transmission capacities work. And if they don't, we may see even price – we may see even situations like we saw in south of Sweden, where the system operator had to compensate for nuclear to be available and had to request even thermal capacities to be started up and area prices were high.

**Iiris Theman - Carnegie Investment Bank AB**

Thanks. I have actually still one question regarding synergies from the Uniper acquisition. So where do you see synergies? And when should we expect you to announce these?

**Markus Rauramo**

So with our 75% ownership, we are then looking for to create value from the cooperation between the 2 companies. And as I said, we have a deep work going on at the moment between large number of people. And our target is that we can give more color on this area in the Capital Market Day in a couple of weeks' time. But we do think that there is definitely value to be created both for Uniper and for Fortum from the cooperation between the 2 companies.

**Iiris Theman - Carnegie Investment Bank AB**

Thank you.

**Måns Holmberg**

And our next question comes from Piotr from Citi. Piotr, please go ahead.

# FLIK

## Piotr Dzieciolowski - Citigroup Inc.

Good morning, everybody. Thank you for taking my questions. I have 3 questions, please. One is a follow-up question to this long-term power price outlook. Is there any risk that at some point, you will have to test the book values of some of your assets? And what kind of is the threshold for it, you will have to see for how long and what kind of level of power prices in the market? Second question, I would ask you, what is your expectation about the renewable additions in the Nordic region in the next decade? How much in the gigawatt capacity do you expect to come online? And how does this compare with the potential decommissioning of different type of capacity?

And the last question is a very simple one. Regarding – can you give us an update on the disposal of the CHPs in the Baltics and Poland? What is the process? And can you actually break this business into pieces and sell it in pieces into different counterparties? Thank you.

## Markus Rauramo

Okay. So if I – maybe I'll start with the last one first. So with regards to the strategic review of our Baltic and Polish businesses, this is as said, it is a strategic review. So it is a foregone conclusion that this would lead to a divestment. It is a possibility. But once we are done with the process, then we will communicate what are the conclusions of this review.

Then with regards to Nordic renewables additions, I think very positive thing is that, Nordics have good conditions for renewable capacities. There are large amounts planned of wind projects in the Nordics, how they come to the market, then depends on the power price outlook. So – and the competitiveness of renewables production. So this goes hand – these 2 go hand-in-hand. So I see this as more of a kind of a dynamic equation, which will develop in time. There has been a push of capacity additions on the back of renewables tariffs, so then the projects are bankable, and you have high certainty of your returns and you get paid as you produce typically.

Then when we are in the market, where we are today with renewables, so this is then largely merchant-based and the bankability, you may improve by doing power purchase agreements, long-term purchase agreements with potential buyers. So capacity additions will be a function of the competitiveness of the market outlook. So I think it will be more dynamic than categorical as it has been before.

The first question was around the long-term power prices and impact on our – on the valuation of our assets, we do the impairment testing regularly. And just as a general remark, I would say that, our – for example, our Nordic hydro nuclear assets are very cost competitive. And – but we do the impairments test on a regular basis. And if they would lead to impairments, then, of course, we would announce that – or if we would see triggers for impairment testing, we would do also impairment tests outside of the regular process, but that has not been the case.

## Piotr Dzieciolowski - Citigroup Inc.

# FLIK

Thank you very much.

## Måns Holmberg

And then we have some questions from the chat also. The first one is from James Brand from Deutsche Bank. And he has 2 questions. In the statement, there are some comments highlighting higher taxes on heating fuels in Finland and the risk of competitiveness of district heating. Could you elaborate on this and this disclosed the point where you believe higher taxes may drive customers to switch?

And then the second question is regarding the – in our H1 results, we already stated that we have increased our ownership in Uniper to 75%. And what should we expect in terms of disclosure going forward? Will you only give an update on the exact shareholding when you hit specific thresholds?

## Markus Rauramo

Okay. So if I start from the tax point, we do follow closely every aspect that impacts our business. And this is mainly relating to the increased taxation on fossil fuel. So we are still using some coal in our district heating systems, for example, Espoo and Naantali. And it is clear to us that this is one of the drivers that has caused us to invest heavily into biomass and waste energy fired CHP district heating production as well as developing the systems towards more heat recycling and off-take of surplus heat from, for example, data centers and shopping centers, hospitals, and so on.

So this just reinforces our view that we need to move, and we have moved to a fossil-free district heating system. Then with regards to further information on our ownership in Uniper, we have said that we will not do a DPLTA or squeeze-out until the end of 2021. We had to flag the 75% ownership. So going forward, we will communicate at least in our annual reports. And if we then put cross flagging notification levels.

## Måns Holmberg

Thank you. Then we have a question from Deepa from Bernstein. So CapEx for 2020 has drifted down to €600 million from €700 million. Could you comment on the drivers for the reduction? And is this mainly timing or phasing the 2021? And then also, could you explain the adjustments being made to Uniper's reported EBIT numbers? What are the moving parts and how best to model this going forward?

## Markus Rauramo

Okay. Yes, the CapEx, indeed, it is mostly a timing question and also the tight CapEx control. So we have been following very closely both our fixed cost and CapEx development like we have said, we want to ensure our financial strength and financial stability and focus on maintaining the BBB flat rating.

# FLIK

Then with regards to the Uniper reporting, this is – I actually commented on the 2 key points. So one is the part of Uniper's result that is associated company income, which we then report in the associated company line. So that was then moved when comparing the Uniper reported result and our reported result.

And then the other factor is the Oskarshamn impact. So this continue – these 2 will continue also going forward. So what you need to do is look at what is the associated company income in Uniper's result and then model that. And I think there, it is best to turn to Sascha Bibert on Uniper side, to get the details there.

## Måns Holmberg

Thank you. Then we have 2 questions from Elchin Mammadov from Bloomberg. So the first one is, what's your expectation for the evolution of the spark and dark spreads in 2021? And the second one then is, how do you expect the performance of your Russian and Generation businesses to evolve in 2021 versus 2020?

## Markus Rauramo

So the dark and spark spreads, as we have seen, there was big volatility in both coal and gas prices during the year, driven by the international market developments. And then the CO2 price and now EU's decisions on how the commission proposals will be implemented will be very, very important for both spreads. I would leave it for that. And then with regards to Russia, there are focuses on the operational availability, efficiency. We will continue to commission the wind capacities in our wind joint venture. And then we have good disclosure on the timing of the CSA capacities and CSA agreements, how they enter the various phases of the 10-year contract and the last 4 years, and when they are being phased out. So that detail you can find in our quarterly statement.

## Måns Holmberg

Thank you. Then we have 2 questions from Vincent from JPMorgan. So firstly, could you update us on the district heating disposal process, please? Regarding the PGE and PGNiG reported this morning? And then secondly, to Markus, your predecessor, Pekka, did commit on not doing in a domination agreement or squeeze-out before October 2021. Yet you are now the new CEO, do you feel you have to abide by the same commitment, especially knowing that your stake is now 75%, and you will – and you are well engaged on the disposal side?

## Markus Rauramo



# FLIK

Yes. So with regards to the district heating processes, I would refer back to that – these are strategic reviews and we would comment once we have run through our processes and communicate about the conclusion. So I wouldn't go on commenting the publications of parties that may be interested in our assets. Then with regards to the DPLTA and squeeze-out comments, so I regard that these were commitments made by Fortum, not only by Pekka. So we have repeated this commitment, and we will continue on that same track.

## Måns Holmberg

Thank you. Then we have a question from the chat. Area premiums for Sweden and Finland versus Norway are currently much higher than prior years. What is driving this increase in premiums? And is this premium sustainable? And are there any limitations to fully capture this pricing, for instance, liquidity?

## Markus Rauramo

The key drivers for the area price differences is the transmission capacities between the areas, and this is definitely something we have been advocating that that's something that Nordic countries should continue to pay attention to, especially, we see that the transmission grid would require investments in Sweden. And also the – also, we continue to support very much the transmission capacities from the Nordics to mainland Europe would be built. And then the local demand-supply balances are impacting.

And if you look at the area price differences versus the hydrology, good to remember again that the vast majority of the Nordic hydro reservoirs are in Norway and not in our price areas.

And then the second question was?

## Måns Holmberg

The second, it was if there's any problem in actually capitalizing on this, for instance, liquidity.

## Markus Rauramo

Yeah, capitalizing. I think, well, what you can see, yes, there is probably differences in the system price liquidity and area price liquidity. But at the same time, we have been able to actually capture good hedging levels, as you can see now from the reported 2021 and 2022 hedge percentages and the prices.

# FLIK

## Timo Karttinen

Just a short note there. So, obviously, also the rainfall situation varies inside Nordics. So obviously, one driver also for these area price differences would always be looking beyond what has been the total precipitation to where it has been raining more or less, and obviously, rainy places are, for instance, in Norway on the Atlantic Coast, whereas – and in Northern Sweden as well.

But then the consumption areas are more to the south of the Nordics. So, obviously, this will always also play into whether it rains and where the consumption is.

## Måns Holmberg

Maybe just one addition to the liquidity question still. If we choose not to lock-in all the area prices or if we're not able to do that, we will, of course, then capture the rest in the spot market.

Then we have the next question from [Erik Van De Boogaard] [ph]. Could you please elaborate on how the interconnectors between the Nordics and Europe, UK, could result in lower volatility of the Nordic power price? And will the interconnections increase the power price in the Nordics?

## Markus Rauramo

I'll take a practical example. Let's say, if the prices in the UK are in the 30s or 40s and the Nordic system price, Norwegian price, would be around 10, then it is logical that as much energy you can transport from Norway to UK, you do that. So that is the business case for the TSO, so to build the interconnectors. Then whether it will lead to more or less volatility or spreads tightening, that then continues to be very situational.

But per se, from our point of view, it is very good that the Nordics and mainland Europe and UK would be tighter connected. And that is something that EU has been advocating national TSOs and utilities are strongly advocating. And we are an integrated market all the way from Northern Lapland to south of Spain, in Europe, and then how closely the prices converge, that then depends on the – at any time, the local demand-supply balance, and both the transmission system capacities and distribution system capacities.

## Timo Karttinen

And then, of course, from a, let's say, technical point of view, so obviously, if there is 1,000-megawatt cable between Norway and UK, say, so it introduces 1,000 megawatts more demand in Norway and 1,000 megawatts more supply in UK, if that is the direction of the travel of the electricity. So, of course, that everything else equal would work out to lower the price difference.

# FLIK

And then, of course, there is also the other way around. So every now and then, there are dry periods in the Nordics and cold spells in the Nordics, and then it would also serve as a backup capacity for the Nordic region, if and when the hydro production would not be enough.

## Måns Holmberg

Thank you. Then we have a question from Thomas. Is the progress with Uniper regarding aligning strategy potentially resulting in quicker integration?

## Markus Rauramo

I think the important part is that there is clarity where we can create value between the 2 companies, for example, on operational basis. And then also, see, what is the direction where we can best respectively use our resources. And I would say that thinking is happening on the back of the big European energy transition that is happening.

Huge amounts of traditional capacities and adjustable capacities being phased out. The potential and also the challenge to be solved is how to get all the renewables in the market that the market is needing the clean energy, how to then store that, balance this energy, how to convert it into clean gases and how to integrate different sectors of activity, including transport, heating and industrial use of gas, these three being difficult to directly electrify.

## Måns Holmberg

And then, we have a question from Peter Sorge, journalist at Dow Jones News in Germany. Dear Mr. Rauramo, at the presentation of the half year financial report, you said my number one short-term priority will be to have a joint strategy for the consolidated group by the year-end. How come that instead of 1 strategy you now speak about 2 strategies when you affirm that you are determined to align the strategies of Fortum and Uniper? Were the conflicts still too big to come up with 1 single strategy?

## Markus Rauramo

Fortum Group, of course, needs to have one strategy. So as Fortum leadership, we need to have a strategy for Fortum Group. At the same time, it is as clear that Uniper has other shareholders than Fortum, and Uniper's management, the Supervisory Board, have their own fiduciary duty and governance responsibilities to all their stakeholders.

So what we are finding is how we can match these 2 and create something that is powerful, where the whole Fortum Group knows how to go forward and how does Uniper then fit seamlessly into that. But

# FLIK

the key point is that we need to have a good strategy. And then, it needs to be from a governance point of view, also solid and compliant.

## Måns Holmberg

Thank you. Then we actually have 2 people, both Peter Crampton from Barclays and Henry Steel asking about the Russian assets. So relating to Fortum's and Uniper's Russian assets, has there been any Russian interest in potentially buying these assets and selling these assets would improve your ESG and overall risk profile significantly?

## Markus Rauramo

The assets that both Fortum and Uniper, or Unipro have in Russia, they are well invested. They are top-class assets, new CSA capacities with low emissions. We have seen that there is interest that has been publicly raised, which I'm not surprised about, because of these reasons. We have good assets. They are effective, well maintained with top-class availabilities.

## Måns Holmberg

Then we have a question from the chat. What are the future plans in EV charging sector in India? What is estimated time to be fully electric?

## Markus Rauramo

We have been active in the EV charge, very active in the Nordics. The Fortum Charge & Drive was the leading EV charging operator in the Nordics. We have Plugsurfing with over 100,000 charging stations connected to our software. We have been also taking steps in India. That's, of course, a long way to go with the population over 1 billion and the related transport to that.

So we are taking steps in India, which are initial ones and very small. I cannot comment on when India will be fully electric.

## Måns Holmberg

Okay. There are still few questions here on the chat, but I think, unfortunately, we are running out of time. So we will handle them through the IR team. Thank you.

# FLIK

**Ingela Ulfves**

Thank you very much, Måns, and thank you all for the questions. So with this one, I also want to thank you all for the participation here today. And as a reminder, of course, highlight the Capital Markets Day. So we look forward to seeing you soon at our CMD, which takes place then on the December 3. And on behalf of Fortum, we wish you all a very nice rest of the day.

**Markus Rauramo**

Thank you very much for participating.

**Timo Karttinen**

Thank you.

**Markus Rauramo**

Have a good day.