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Ingela Ulfves

Good morning, everyone. My name is Ingela Ulfves and on behalf of Fortum I welcome you all to our joint-webcasted news conference on our fourth quarter and full year 2020 results. This event is being recorded and a replay will be provided after the presentation on our website. And this session is limited to one hour.

Before we start the presentation, I would like to briefly introduce our newcomers to Fortum. As of February, we are happy to have Bernhard Gunther, started as our new CFO. In IR we also have had some additions to the team. Camilla Nikk has started as our IR coordinator and as of beginning of March Carlo Beck has joined Måns and Rauno as IR manager. Carlo with extensive expertise from Investor Relations, brings strong experience of Uniper as he's transferring from Uniper IER to be with us for at least one year.

But moving on to the results. Our CEO Markus Rauramo and Bernard will present Fortum's Q4 and Full Year results. After the presentations, we will open up the QA session. So, without further delay, I hand over to Markus to start.

Markus Rauramo

Thank you very much, Ingela, and welcome to our results presentation also on my behalf. I hope you have all stayed safe in these tricky times.

While Covid-19 is one single thing we will all remember 2020 for, it was not the decisive factor for Fortum's development over the year. Despite the difficult operating environment, we produced solid results and took significant strides both strategically and operationally.

The most significant steps in 2020 were the consolidation of Uniper into the Fortum Group and setting our strategic direction for the Group with Uniper as an essential part.

Building on our strong position in CO₂-free power generation and gas as well as our expertise in sustainable, industrial and infrastructure solutions, we are now in an excellent position to [inaudible 00:06:17] forward the European energy transition. To execute our strategy, we continue to transform our own operations towards carbon neutrality in line with our new Paris-aligned climate targets. And while we are phasing out all the coal power plants and continue to optimise our portfolio, we also invest in the new – specifically in renewables and hydrogen – like the 550 megawatts of new wind power that our Russian joint ventures commissioned last year.

These wind parks in Rostov and Kalmykia will be followed by 80 megawatts of solar and 480 megawatts of wind in Southern Russia in 2021.

In hydrogen we have announced several promising initiatives this year, such as the plan to build a 100 MW hydrogen plant at Uniper's Maasvlakte power plant in the Netherlands.

At the same time, the strategic assessment of consumer solutions and our district heating businesses in the Baltics, Poland and Stockholm are proceeding.

As part of a strategy alignment with Uniper, we identified cooperation benefits with the positive cash impact of approximately €100 million annually to be reached in 2025. [inaudible 00:07:49] benefits has started in December.

Related to this, our focus is currently on the one team cooperation areas, i.e. in Nordic Hydro, physical trading optimisation, renewables development and hydrogen. But continuously, we are searching for new value creation opportunities and it is deeply embedded in Fortum's culture.

In a highly competitive landscape and right in the middle of the energy transition, we need to act decisively, efficiently and fast, and I'm convinced that we could do even more if we work closer, better, and more effectively together with Uniper.

We strongly believe that determined execution of our Group strategy and aligning our operations in each business even closer will deliver not only excellent financial performance, but also the best opportunities for our employees across the Group.

Finally, before we jump into last year's performance in detail, a couple of words on the regulatory development. The EU's Green Deal with its clear commitment to climate neutrality by 2050 and tighter emissions reduction target for 2030 was a truly welcome development. The tighter targets will be translated into substantially tighter EU ETS in the upcoming years, which is something we for several years had been advocating for. The tighter target has also supported the price of CO2 emission allowances. This is something I will return to the development of later in my presentation. However, we are concerned about the development of the EU Sustainable Finance taxonomy.

We believe all CO2-free technologies should be accepted as contributing to the climate change mitigation and included in the taxonomy. Right now, it looks like nuclear, hydro and biomass will be in an inferior position. We also believe that it is necessary to recognise the transitional role of natural gas.

Finally, we are pleased that the hydrogen economy also took several steps forward with the EU Commission and several member states presenting their hydrogen strategies. This is a very welcome development as the role of hydrogen made from CO2-free power will play a key role in decarbonizing the European economy.

Then moving over to looking at year 2020. All in all, the year ended up being solid for us. Even if the Nordic spot prices came down by more than 70%, our achieved power price came only down €2/MW hour.

Our comparable EBITDA for the year was up 38% at 2.4 billion. If we look at comparable operating profit and share of profit from associates and joint ventures, it totalled about 2 billion and here we have to remember that Uniper was consolidated into our comparable operating profit only part of the year and first quarter as share of profit from associates. This all ended up giving a very solid net profit and an EPS of €2.05 – up 23% year on year.

Our net cash flow from operating activities was very strong. An increase of 1 billion to 2.6 billion for the year.

And finally, our Board confirms the proposal to propose to the Annual General Meeting a dividend of €1.12 per share.

Then going into markets and commodities. If we take a look at the power demand, we can see that demand recovered close to 2019 levels in most areas.

First, looking at the full year: Nordics down 3% – this was more weather related than underlying demand related. Central Western Europe down 4% for the year; Russia, 4%; Germany, 3%. And if we look at the fourth quarter in Central and Western Europe, actually fourth quarter was down only 3%, which is a remarkable recovery for example, compared to Q2 which we see here, which was down 9%. In Russia, Q4 was only down 2%. Germany Q4 down 1%. All in all, a good recovery on the demand side in the corona year.

Then looking at demand now in 2021. The cold winter that we are experiencing now has increased the Nordic demand notably.

If we look then at another factor which is very important for our short-term performance: the hydro reservoirs. What we can see from the graph looking at the dotted lines of 2020 and 2021 is that Q3/Q4 the reservoir levels were very high, so hydrology was very high. Weather was wet and mild. This started to turn in December into dry and cold, which also resulted in high production volumes and consequently the gradual normalisation of the reservoir levels, which we then see in the 2021 line. So we are getting closer to the normal level. So, all in all, giving good support now for the beginning of the year.

Moving over to commodities, shortly about that. [inaudible] coal and gas during the last years. They have been impacted by the weakening global macroeconomic environment, increasing production on electricity bought from nuclear and renewables in Asia and coal prices specifically have been pressured by increasing LNG supply as well.

Like other commodities, the coal prices were affected by Covid-19, but the recovery started in Q2/2020 and during Q4 we started to see significant gains on the back of supply tightness and improved demand. And this demand was impacted by the cold weather and strong recovery in Asia. In addition to this, the tight situation and high prices in LNG market have supported coal during Q4 and Q1 of this year.

In gas, the underlying growth in supply and weaker demand. That impact was even further escalated by Covid-19 leading to a strong oversupply and finally a reduction of LNG supplies during the summer of last year.

As the tighter supply was matched then by demand starting to recover, starting from Q3, prices have been inched higher on the back of this more balanced market. And the cold weather in the

northern hemisphere and strong recovery in Asia have led to the significant tightening of the LNG market and higher European gas prices in Q4.

Then, over to CO2 and which is a very important factor for us. What we can see is that the European carbon market has seen significant price gains since November. This has been supported by a multitude of factors. There has been stronger confidence in the recovery of the European economy on the back of the Covid vaccine development and the upcoming ETS reform in addition to the previous are important long-term drivers for the carbon market.

In addition, cold winter and then the break in the EUA auctions during December and January have also contributed to the positive mood and we have seen continuously new highs for the CO2 pricing.

The combination of higher EUA pricing and gas price movement have given continuous support also for the coal to gas switching, which is good from an emissions point of view.

Then over to Nordic spot and forward prices. The wet and mild weather continued throughout the year in Q3 and Q4 until December, and that we can see in the Nordic system spot price.

Since December we have been experiencing the cold and dry winter. And in addition to that higher gas prices, higher CO2 prices and higher continental prices and this has been given very strong support for the Nordic system price. And this increase, as you can see, is notable both in the spot with the green line and also with the forward curve. And here we have showed where the forward curve was in November and the marked increase now until the 9th of March.

Then it's good also to remember that for us there is more than just the system price that is relevant for us. So, there's a marked difference between the spot prices in the different price areas in Q4: €32 in Finland, €13.8 system price, and €25 for SE3 in Sweden. The high hydro reservoirs depressed the system price in Q4, but then SE3 and the Finnish price areas were supported by low, nuclear availability, transmission limitations and also higher prices in the continental Europe. And the cold and dry winter and improved interconnection availability then increased the spot prices now in Q1.

Then, how did this all translate into our both spot market prices and our achieved prices? If we look first at the Nord Pool spot price, Q4 year on year, we can see that the spot price came down 64%. Our hedges and fiscal optimisation and financial optimisation, massively stabilised this impact and resulted in that our achieved Nordic power price was down only 6%.

In Russia, spot prices were rather stable, down 1% as you can see in the top left-hand corner. And in rouble terms, our achieved power price actually increased 3%. But due to the weak rouble, if we translate this to euros, the achieved price went down 20%, but in roubles plus 3%.

Then I'll go shortly through the segment results and some highlights there. Starting with Generation, Q4 was down 62 million, year on year. The result was impacted by power generation in nuclear and lower tiered power price, partly offset by good hydro volumes. For the full year 2020, generation was down 72 million. This was impacted negatively by the lower nuclear volume and lower achieved power price, but partly offset by the very strong hydro production.

Moving over to Russia. Russia Q4 was down 18 million when we calculate in euros, but that includes an FX impact of 19 million. So actually, the underlying result in roubles was very stable. And both for the Q4 and full year, I have to give strong credit for Alexander and his organisation for maintaining good availabilities and cost efficiency which then practically offset the impact of the lower CSA payments in fourth quarter.

For the full year, the Russia segment comparable operating profit was down 65 million. This includes a negative FX impact from the weaker rouble of 34 million. Power margins and volumes were lower, we saw some corona impact in Russia. CSA payments were lower, but on the other hand, heat tariffs were higher and we worked on the cost efficiency for the year.

Good to note in in Russia that our transformation towards lower emissions and renewables is continuing with a very good pace. We have the total portfolio of two gigawatts of wind licence fees and in addition to that also solar projects in our joint ventures in Russia. We now have 600 megawatts of wind capacity operational, 495 megawatts under construction, and 728 megawatts under development. So, very substantial numbers.

This year we will be commissioning significant amounts of both solar and wind. And then good to remember that this is now the Fortum Russia and Uniper's Russian operations are reported as part of the Uniper segment.

Then over to City Solutions. The Q4 comparable operating profit came down 39 million. The result was negatively impacted by the lower result in the heating business in Norway, which is also impacted by the lower power prices. Weaker performance in recycling and waste business. Here we saw some impacts from reduced activity due to corona. Then on a like-for-like comparison there was the 7 million impact from divestments; so, from units that we do not have anymore.

And then in Q4/2019 we had one-time positive effects of 16 million which we don't have this year in Q4.

For the full year, City Solutions was down 73 million. Similar drivers: lower heat tariffs volumes, lower power test prices, negative impact in Norway and weaker performance in the RWS business. And for the full year, the impact of divestments stood at 14 million. Indian solar is contributing positively and we are developing projects continuously in the Indian solar business.

Good to remember also that we have a strategic assessment continuing in City Solutions area for our Nordic and Polish businesses as well as Stockholm Exergi are under strategic review. We're obviously looking at our efficiency and cost base in the business and we do invest in low-carbon solutions to clean up our district heating businesses on a continuous basis.

Then moving over to Consumer Solutions. Q4 on a year-on-year basis was up 2 million and this was the thirteenth consecutive quarter of comparable EBITDA improvement. And I'm happy to congratulate [? 00:26:01] and his fantastic team of this achievement.

Even if competition is continuing very intense, there are tens and tens of competitors in each of our operating areas, we are making good progress and customer recommendation and employee engagement are at all-time high levels. We continue to push ahead well on the value-added product side and we are launching new digital services to our customers. And then it's good to note that we have initiated the strategic review also of our Consumer Solution business.

If we look at the full year, Consumer Solutions was up 11 million on the back of the higher sales margins, and this is due to the very good development of our total service offering and the great work on the value-added services. We continue to strengthen our competitiveness and we have been signing also new enterprise contracts.

Then finally, before I hand over to Bernhard, I'll comment on the Uniper results. This is now the first fourth quarter where we consolidate Uniper on the comparable operating profit level and indeed, Uniper made a very strong contribution to Fortum Group. Comparable EBITDA stood at 819 million, comparable operating profit at 649. The result was supported by European power prices and very good performance in the gas business, which was partly also already result of optimization actions in Q1. And good to remember that the Q1 result is recorded a Fortum result as part of associated company income.

For the full year, Uniper's contribution on EBITDA level was 856 million and comparable operating profit 363. And again, here we are consolidating three quarters on the comparable operating

profit level at the first quarter, which was very strong, was consolidated as an associated company income.

Now we published also the preliminary purchase price allocation and, in a nutshell, with the one-time effect in the tens of million: 64 million for Q4 and 57 million for the full year.

Into Fortum books we take goodwill of 515 million from the purchase price allocation, and there's a modest increase in property, plant and equipment which then will be amortised and we'll need 11 million higher depreciation on an annual basis. But as you can see from these numbers, the impact from the PPA are quite modest.

And with this, I move over to Bernhard to go through the key financials. Over to you, Bernhard.

Bernhard Gunther

Yes, thank you Markus and a good morning from me to all of you as well. It's good to be back. Now to our financial performance in 2020. Just a few highlights. It was a good level considering both the market conditions and especially Covid-19. Compared to EBITDA, comparable operating profit clearly improved. This, however, only includes Uniper for Q2 to Q4. When including share of profits from associates, as Mark has already said, to reflect the full financial impact from Uniper in 2020, our comparable operating profit and share of profits amounted to €2 billion. And that's probably as close you can currently get to a kind of adjusted EBIT number for the combined Fortum Group in 2020.

As mentioned earlier, we did the preliminary purchase price allocation for the Uniper transaction in Q4, and as Markus said, no major impact on the financials, just 57 million for the full year and 64 for Q4.

When bridging from operating profit to comparable operating profit, there are some significant items included, the main part of which is related to the sales gain from the divestments of Joensuu and Järvenpää, the district heating businesses in Finland – this was €722 million and -675 million of changes in fair values of non-hedged counted derivatives and this of course comes mainly from the Uniper side. The rest is more of a technical accounting nature related to the consolidation of Uniper.

In Q4 we have also made some changes to our reporting and accounting that is aligning with Uniper reporting and these changes are: First, in the income statement, nuclear front

adjustments were reclassified from items affecting comparability to other financial expenses net; however, this change does not impact comparable operating profit.

Secondly, in the cash flow statement, nuclear plant related payments and repayments have been reclassified from cash flow from operating activities to cash flow from investment activities.

And thirdly, again, in the cash flow statement, we have reclassified the change in net margin liabilities from operating cash flows so that the change in margin receivables is now presented in investing cash flow and the change in margin liabilities is now presented in financing cash flows.

Due to the above changes as well as the preliminary purchase price allocation comparable figures have been restated and material with restated figures on changes has been made available separately today. I proposed to turn to the IR team if you want to discuss or have further questions.

So, now let's start with the full year 2020 and the specifics on Q4 will come on the next slide. Compared to 2019 comparable operating profit improved by 30% and the reason for this is the first-time full consolidation of Uniper results from Q2 onwards. Uniper's contribution to our comparable operating profit was -63 million, mainly related to the gas business. And this, as I said before includes Q2 to Q4 only and the associated result was recorded for Q1. Furthermore, Q2 recorded a marginal profit and Q2 was loss making on the Uniper side. In 2019, Uniper's contribution was accounted for the whole year as share of profits due to it being an associated company.

The difference between Uniper's adjusted EBIT and the comparable operating profit we consolidate comes from removing the impact of some associate company results and from the consolidation of the Oskarshamn nuclear power plant. Uniper fully consolidates Oskarshamn whereas we only own directly 43% in Fortum's generation segment. So, we will continuously be making these technical adjustments.

The result in generation was the [inaudible] by lower Nordic volumes and lower achieved price. Considering the low spot prices, the relative stability of our achieved prices is approved of the importance of hedging to increase stability and predictability of cash flows and results.

Now to Russia. Although the Russian market started to recover in the fourth quarter, Covid-19 is visible in our Russia segment result. It's through lower power margins and volumes as well as lower CSA prices. This was a consequence of low oil production that then has resulted in lower

power demand, lower power margins and volumes. As mentioned before, the negative dollar effect from the rouble exchange rate, minus €34 million.

City Solutions profit was impacted by both the warmer weather through lower heat sales volumes and lower power sales prices, especially the Norwegian heat business was hit through the pricing mechanism. The structural change of the divestment of our district heating in Joensuu and Järvenpää in Finland resulted in loss of comparable operating profit of €14 million.

Also, the recycling and waste services posted weaker results adversely affected by Covid-19 and. And for comparability, please bear in mind that in 2019, as Markus said, we also had a 60 million positive one-off.

Consumer Solutions improved in 2020, as Markus said, and I may say, having worked for other companies active in that business as well for quite a while, I think that's a remarkable achievement given the competitive pressure in these markets.

So now moving onto Q4, very briefly. I think the most important thing to say is that the Q4 numbers aggregate cannot be compared to 2019. We do not have comparison numbers from last year for Uniper as we started to consolidate only in Q2/2020. And you can see that Uniper's Q4 contribution was higher than the full-year impact from Q2 to Q4 because of the seasonality related to the gas business. The overall drivers for the earnings variances of Fortum divisions are the same as for the full year.

Now moving onto net debt and cash flow. Here, you will find the changes in our financial net debt and main items of our cash flow during 2020 showing an increase of €2.19 billion, mainly related to the consolidation of Uniper's financial debt which was at €2 billion.

Our cash flow from operating activities in 2020 was strong – €2.55 billion – while cash flow from divesting activities amounted to €1.26 billion. These together more than covered the investments, totalling approximately 2.9 billion. The dividends paid amounted to more than €1 billion, including the minorities. At the end of the year, our financial net debt totalled approximately 7 billion and it's being used in our KPI for monitoring our leverage of financial net debt to comparable EBITDA.

At the Capital Markets Day in December, Fortum updated its long-term financial targets, including target for our leverage to the financial net debt to comparable EBITDA below 2x.

At the end of the year 2020, financial net debt to comparable EBITDA, as reported, stood at 2.9x. But here, we have to keep in mind that as we started to consolidate Uniper only from the second quarter onwards, the Group EBITDA is only comprising three quarters in 2020 and is thus not representative of the leverage ratio yet. If considering a pro-forma financial net debt over EBITDA, it would be in the ball park of 2.2x.

As we have said before, our key objective is to have solid investment grade rating of at least triple B flat and to maintain an investment grade rating, the focus on optimising our cash flow and keeping our financial flexibility.

We have good access to capital and ample liquid funds of €2.5 billion and undrawn credit facilities of another €5 billion. Our total loan position at the end of 2020 was €9.6 billion and the average interest rate for our gross debt portfolio currently is 1.5%. The average interest cost for our euro allowance is 0.9%.

Now finally, over to the outlook. Our successful hedging has continued with marginal decrease in our achieved hedge prices compared to spot prices. For the remainder of this year, generation hedges are unchanged from what we reported in connection with our Q3 results. And for the year 2020, we are now 50% hedged at €31. Uniper's hedges, as published by them last week, are 90% at €27 for the remainder of this year; 65% at €24 for 2022; and in addition, Uniper also published 25% at €22 for 2023.

Regarding Capex for 2021, we repeat what we already communicated at our Capital Markets Day in December. Total group Capex is estimated to be €1.4 billion of which maintenance is expected to be around 700 million, of which Uniper's share is approximately 400. However, there might be some volatility between the years and we have not provided guidance for the normalised maintenance Capex going forward.

Finally, I also want to highlight that the lower bond yields in Russia will have an impact on the CSA payments for the ongoing year as the bond yields have declined during last year. The drop is from 7.6 to 6.3% and were lower with CSA payments. With that, I conclude our presentation and we are now ready to start the Q&A session. Ingela, over to you.

Ingela Ulfves

Thank you very much, Bernhard, and thank you also Markus for the presentation. Actually, before we open up the Q&A session, I would still hand over the word to Markus.

Markus Rauramo

OK, thank you, Ingela. Meanwhile, when we have been presenting our strategic assessment have proceeded, and one of those resulted in a conclusion to divest. So, we just announced that we are selling our district heating business in the Baltics for a headline price of €800 million to Partner's Group. And from this transaction we expect to record a tax-exempt capital gain of approximately 240 million in the City Solutions segment in second quarter of this year. And we expect that the transaction is then completed in the second quarter and subject to customary closing conditions. This is a logical continuation of our strategy execution where we are continuously improving our portfolio and making sure that we have the right focus in our businesses.

But this is news that we were able to produce during the presentation.

Ingela Ulfves

OK, so with this addition of new announcements, then we are ready to go into the Q&A session. So, Moderator, please go ahead.

Q&A

Operator

Thank you. if you wish to ask an audio question, you may do so by pressing 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. Once again, please press 01 on your telephone keypad if you wish to ask an audio question. There will be a brief pause whilst we wait for questions to be registered.

Our first question comes from Sam Arie from UBS. Please go ahead. Your line is now open.

Sam Arie

Thank you, very much and good morning, everybody. Congratulations on the results and the disposal as well. We were just reading that during the presentation. And welcome, Bernard; it's good to have you back too. I just wanted to ask two questions if I may, one on results and one on my favourite topic, Uniper. So just on results: you beat expectations this morning, but it's coming from results which look a bit maybe weaker than expected on EBITDA, but a bit better than expected on the items below EBITDA. And the associate line in particular, if you take out Uniper, and Exergi looks like it's had a very strong Q4, so I just wondered if you could comment if the full

year number for the associate line is a good basis for next year or are there some one-offs and exceptionals in there that we need to adjust for?

So that's my question on results and then back to Uniper. Obviously last week Uniper had to make a special release, putting their dividend policy announcement on hold and they said the discussions with you were pending. I imagine one reason that you might not want them to set out a dividend policy at this stage is if you are expecting a major disposal during the year. For example, if you were looking at the sale of Unipro as has been reported, but I wanted to check. Is that a fair assumption or can you give any more light on the discussions that are pending with Uniper on the dividend policy? Thank you.

Markus Rauramo

I think I'll take these two questions and if Bernhard wants to add on the associate question, please chip in. The big item on the associate company line is Uniper, so we're not going to have that anymore in in 2021. But that's the kind of multi-hundred million issue there, the big needle mover going forward. With regard to the Uniper dividend communication: this is Uniper's decision that they communicated. I think it's natural that this is discussed both in Uniper's Supervisory Board and also with the 75% owner. And a difference there between Uniper and Fortum has been that Fortum typically announces the proposed dividend only at the full year results. Now we gave already a heads-up unusually in the Capital Markets Day of our intentions, but normally very close to the AGM. So, I think fair then to discuss this point that when should the dividend guidance need to be given. But not more special than that.

Sam Arie

OK, thank you and on the associate line, I'm sorry, you're just excluding Uniper and Exergi. I was sort of referring to the other items in there. I think it's about 140 million for the year, about 100 of that came in Q4. So just wanted to check what might be any one-offs in Q4 in the other associates.

Markus Rauramo

You have got the elements there like Stockholm Exergi, PCG1 and others which are in businesses that also can have activity between the years and between the quarters. So, not something that I would start to forecast for the coming years.

Sam Arie

OK, very clear. Thank you, and thank you for answering on the Uniper question, too.

Operator

Thank you, our next question comes from Lueder Schumacher from Société Générale. Please go ahead. Your line is now open.

Lueder Schumacher

Good morning, Markus and Ingela, and good morning Bernhard. Good to see you back. Three questions from my side: The first one is on the disposal you just announcing in the Baltic district heating. How much EBITDA is associated with that business you're selling? That's the first one. The second one is on Nordic power prices. Since the beginning of the year the trade was more or less around €28 per MW hour. In the meantime, CO₂, as you said, is up 27% year to date. German power prices are partially reacting to this – they are up 15%. Why is nothing happening to Nordic power prices? I know we've got very high reservoir levels, but that shouldn't really make a difference as we are talking about carbon, so 2022 prices here. [Inaudible] power prices and why they are where they are and where they can go to.

And lastly, on your reporting, you still just report in net income and then you give an adjustment in terms of EPS per share. Uniper's non-operating result is notoriously volatile, so it does distort your reported net income. Are you considering moving to an adjusted net income in your reporting as most companies in the sector, which has quite unpredictable non-operating results?

Lastly, also on reporting. Could it be that at some stage people want to get an outlook for the financial year that goes beyond hedging ratios, or actually just give us a target range. Even Uniper, which has a very volatile business manages to come up with a target range for EBIT and net income. Is this something we might expect from you in the future?

Markus Rauramo

OK, thank you for the many questions and both Sam's and Lueder's remarks. So, we are also very, very happy to have Bernhard on the team. So, it's a real pleasure to have his competence and also the great personality. So, I'm a very happy person and we're all happy here in Fortum about that and Uniper.

The Baltic business' EBITDA was 54 million and that is including quite substantial subsidy for biobased energy and several of the power plants. So, if we think about EBITDA multiples, they

were reasonable on a non-adjusted basis and, for my taste at least, very good if we adjust for what EBITDA will be without these subsidies. So, my interpretation is that the market appetite for this type of infrastructure asset is very good. And also, the assets we have are very well invested and they're operated very efficiently, so the teams have historically done really good work in operating and we have done good work in developing these assets. So they command good.

With regards to Nordic power prices: The Nordic market is definitely connected to the continental market, so we are operating in an interconnected market all the way from South Spain to North Lapland. And then how the individual area prices are then formed, there are big impacts from interconnections between priced areas and between Nordics and the continent and ideological conditions power demand may vary significantly. And just to give the flavour how it is now being here in Helsinki, the temperature has varied just in the recent days between +2 and -17/18 degrees. And if you look at the power consumption, it has kind of gigawatts of impact on the demand. On the other hand, wind production has varied between something like – I don't know – 200 megawatts to 2,100 megawatts for the wind. So, if you look at the daily or weekly prices it's hard to draw a long-term conclusion, but my long-term conclusion is that we are connected and we will be further even better connected now there are almost 10 gigabytes of interconnections between the Nordics and that is growing in a couple of years again by another 3/4 gigabytes of connection.

On the net income question, I recognise this issue of course, and what we try to do is that we give visibility into our performance through the different KPIs. So, it's not only one number that we ask you to look at, but several numbers and personally, I liked historically the net profit because it's quite absolute, but right you are that with even bigger moving fair valuations and others it will become more difficult to interpret that number. And that's why we need to focus on the comparable EBITDA, comparable operating profits and other measures.

Bernhard, do you want to give your take on this issue?

Bernhard Gunther

Yeah, just very briefly, Lueder, I think it's a fair question. This is a situation for Fortum which has not changed with the full consolidation of Uniper and I'm sure we will give it consideration on how this affects our reporting going forward. As you can see it's still in the structures of the old Fortum Group before full consolidation of Uniper and, as Mark has said, some of those line items

now make a bit less sense than they did before. So, not giving any promises but we are certainly aware of it and have it on our list.

Lueder Schumacher

Very clear, thank you.

Operator

Thank you, our next question comes from James Brand from Deutsche Bank. Please go ahead. Your line is now open.

James Brand

Hello, good morning and thank you for the presentation. I'll ask two questions as well. The first one, I'm just wondering whether you could help a little bit in terms of some of the EBITDA splits within City Solutions. So, you said in the announcement around the sale of the Baltics district heating business that you highlighted the strategic review for the Polish heating cooling business. So, I was wondering whether you can remind us how much EBITDA that contributed.

And then, secondly, Ekokem – I'm not sure if you're still calling it Ekokem, maybe you've changed the name by now – but the waste business that you acquired which obviously is the other big part of City Solutions as well as district heating; I was wondering whether you could tell us what that contributed in EBITDA in 2020? That's the first one – I guess two-parter.

And then secondly, on the Uniper stake, what should we expect on disclosure going forward? You obviously don't really have any threshold disclosure requirements anymore that you need to report on, I think until very high levels. Should we expect you to update it every quarter on where the stake has got to, or should we just not expect to hear anything on what your stake is? Because it's useful to know what it is just so we can, one, track the situation but also reconcile your outlays with your stake. Thank you very much.

Markus Rauramo

OK, I can start with the Uniper stake and I can start also with the EBITDA split and then hand over the trickier part to Bernhard. But with regards to the Uniper stake: so, we disclose annually what is our ownership level and now it's a notch over 26%. Then we would report according to mandatory flagging levels. And then of course, you can see from, for example from cash flow into share acquisitions if we're doing something bigger and then probably, we need to consider if we

do something larger without the flagging level, that it is something that would need to be disclosed if it's relevant, but otherwise normally on an annual level. But from my point of view this is then more semantics because Uniper now is a segment of Fortum Group and it's reported as the other segments in Fortum. Of course, being a listed company, you will get a lot of colour and detail from Uniper management in the Uniper reports.

With regards to the EBITDA split, what I would say rather than commenting on the exact EBITDA, unless we have – I don't know, Ingela? No, we don't have the exact number there – but like I said, so nowadays we're calling it recycling and waste solutions. But don't worry Ekokem brand is still ingrained also in previous customers' and societies' mind, but we did see some pressure coming from corona with reduced, for example, waste volumes from businesses and also reduced environmental construction.

James Brand

Thank you very much.

Operator

Thank you, our next question comes from Deepa Venkateswaran from Bernstein. Please go ahead. Your line is now open.

Deepa Venkateswaran

Thank you. Bernhard, a warm welcome from me. Good to see you back again. I have three questions. One is, Markus, you mentioned in the beginning about, the green taxonomy and you mentioned that hydro was being placed in an inferior position. Would you elaborate on the technicals on why hydro would not be included? I understand the arguments on nuclear. So, that was my first question. And the second question is on Russia. I think just looking at our numbers and consensus, generally, people are modelling a 15 to 20 million EBIT step-down from 20 to 21. Is that in the right ball park or because of the bond yields, we need to change that to a higher number? And my last question is really on the City Solutions, a business, or maybe elsewhere, were there any Covid one-offs that we need to be aware of, which we think will not reoccur next year? Thank you.

Markus Rauramo

The green taxonomy discussion, I think the issue was that it became quite categorical and narrow in the sense that only very few production forms would be regarded as doing no significant harm. And the question in hydro, as far as I understand it, and I've tried to understand also what's the issue there, is around how high the production is impacting natural habitat, fish breeding and investments into, for example, fish ladders, etc. And we take this area extremely seriously. So, we want to minimise our impact on the environment. We are ready to spend money in helping natural habitats to survive and improve, but then the question is that how do we best use the monies that are available and mandatorily should be used.

And as it looks like right now, the significant amounts of hydro in the Nordic could be put in an inferior position because of these discussions and this is what we are now actively engaging also with the EU on. And overall, I would say that the bigger issue is that if we want to achieve our Paris Agreement, climate targets, fight climate change, which is a really, really big threat for us, then we should be careful not to put solid, well maintained, safely-run CO2-free businesses in an inferior position; i.e. hydro, nuclear, for example, waste energy, its CO2-free share. Then we think it will become more difficult actually for EU to achieve the target that the dialogue we're having.

With regards to Russia 2021. I can't comment exactly on if the calculation is correct, but we now have elaborate details on the Uniper CSA timelines, both for the Fortum segment, Russia and Uniper segment, Russia unit and Ingela and the team are more than happy to provide further details on that if needed and go through the assumptions.

And then for City Solutions, I'm not aware of any forward-coming one-offs in the area. If we would have, we should announce those.

Deepa Venkateswaran

Thank you.

Operator

Thank you, our next question comes from Vincent Ayril from JP Morgan. Please go ahead. Your line is now open.

Vincent Ayril

Hi good morning everyone. Think my key questions were asked: Uniper dividend, Russia and the Baltics disposal. So, I'd like to get an update then on Exergi which is the big chunky bit, which is

still remaining there. A number of press articles reporting a fair amount of interest, a few bidders leaving the option given the competition for the asset and the price levels, reportedly. Could you give us a bit of an update on the process, the timeline and everything regarding Exergi? Thank you.

Markus Rauramo

Thank you for the questions. The assessment is indeed going on and I think there are two sides to such an assessment. One is that in order to assess both the strategic and potential market interest and market value of any of our businesses, we have found that in a situation that will be very competitive, it's easier to then have a kind of open process to do the assessment. I think the flipside of this is that we do understand what kind of uncertainties process for our personnel. So, we need to be very careful when we announce something like that. So, with regards to Exergi assessment or Consumer Solutions or the Polish business, it's a foregone conclusion that it would lead to divestment. So, we are truly assessing what are the best strategic options.

What is absolutely clear is that there was interest in the asset before the announcement and after the strategic review assessment announcement. This interest has intensified and I think that now this announcement on the Baltic business shows that even in rather tricky times and with having an even more diverse base in multiple countries and multiple assets commands good interest and from my point of view, the Stockholm district heating system is one of the largest in Europe and a really well-invested system and that's reflected in the interest that we are seeing in it.

But with regards to what would the conclusion be, then there is no further information on that at this point in time.

Vincent Ayrat

Thank you for that. Thank you very much, Markus. Also, I had a slight surprise there, not on the disposal multiple, on the Baltics – I was expecting 15, so lucky. But on the EBITDA level, which was a touch higher, 66, you explained anyway some of the limits to remove and we should get to 54. Fine. What is the EBITDA to consider for Exergi? Are there any funnies we should know there, what's the order magnitude of the EBITDA for Exergi when we will apply one day. Thank you.

Markus Rauramo

Thank you. So, I would rather compare actually just the type of the system. So, if my memory serves me right, the Stockholm system is something like 8 terawatt hours of heat whereas Baltics was 1.4 terawatt hours. So, one of the largest systems in Europe. And of course, you can actually find the Exergi details in their published annual reports also.

Vincent Ayril

Yes, thank you. We have 2.8 billion SEK, so that's about €271 million. Is it fair in 2019?

Markus Rauramo

If that's a reported number, it sounds about right, but I don't know what you are referring to. But historical information is available and I would only refer to that.

Vincent Ayril

OK. I'll leave it there, Markus. The point is I wanted to know if this is the Stockholm, the reported, just to know if there were any non-rec elements in 2019 we should be aware of. That's all.

Markus Rauramo

We can we can get back to that question.

Vincent Ayril

OK, fantastic. Thank you very much.

Operator

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

Peter Bisztyga

Yes, thank you. Good morning. Welcome back to Bernhard and I guess wishing you the best of luck with your [inaudible]. So, a few questions from me. Firstly, can you explain why Stockholm ended Exergi discussions and do they have any rights, for example, to block an alternative buyer for your stake? My second question is regard to the Baltic business. Again, can you just elaborate roughly how much of that 54 million was from the subsidies that you mentioned and when do

the subsidies end? And also, do you happen to have comparable 2019 figures for that EBITDA, in a pre-pandemic year with more favourable weather?

And then my third question was just regarding your renewables activities that seem to be spread across several divisions or business lines and it's certainly difficult for us as analysts to see the overall EBITDA contribution of this business, but presumably it's also not the most efficient way to manage the business. I'm just wondering if there are plans to put this all in one umbrella at some point in the future.

Markus Rauramo

With regards to the Exergi shareholders agreement and its content then that's something that we obviously need to take into account and I think that if there was a sell considered then that's something that you need to consider also with your large co-shareholder. And of course, a potential acquirer will like to understand vice versa the potential co-shareholders' strategy. So, I'll leave it at that.

With regards to the subsidies. The subsidies in the different plants they are rather sizeable and they are maturing in the next several years, so it will take until the latter part of 2020s before these subsidies are then maturing.

Then for the final question for the renewables. The setup we have today, solar in City Solutions, wind in Generation and then also wind and solar in Russia, that has all made sense in the set-up how we have been building the competencies and then we have been cross-utilising knowledge like procurement, like supplier auditing, site development. So, we have benefited from this cross-divisional work. Now for the European Renewables business, we said that we are targeting a one-team approach and we gave the task then to David Bryson in Uniper to come up with a proposal how should the development happen going forward. So how to utilise the competencies in the whole Fortum Group, in Uniper and Fortum in the best possible way. And we will then communicate in due course of the results of this work. But I think, of course, you are right in that eventually there is a price you pay for fragmentation. There are benefits also of that having strong local presence and divisional ownership for the different pieces and that is something that probably develops over time.

Peter Bisztyga

OK, thank you. And just back on the Baltic thing. Do you happen to have in mind the 2019 EBITDA number for that business?

Markus Rauramo

I do have in my mind that number, unless Bernhard have?

Peter Bisztyga

I'll follow up with IR. Thank you.

Operator

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

Pasi Väisänen

Great, thanks, this is Pasi from Nordea. Thank you for your presentation. By looking at the equity story for coming years, could you actually please clarify Eastern Russian gas operations? Core asset base to you, or is it not? And secondly, Fortum has been promoting a high CO2 emission right price; that I can understand, but to be honest I mean to pass through from [01:12:41] right price to the Nordic power price is close to nothing. So, what earnings effect you actually expect to see from a higher CO2 emission right prices going forward? Thanks.

Markus Rauramo

Regarding Russia, it is clear that all countries committed to Paris Agreement need to shift from high emitting to low emitting production. Russia has ratified the Paris Agreement, so I do believe that also in Russia we will see a gradual shift towards lower-emitting production. We have actually taken that path already. So, we have the substantial renewables development programme going in in Russia, and for us it is natural to also rotate our portfolio over time, which is something both Uniper and Fortum have done in Russia with Russkoye in Uniper's case with the Tobolsk for Fortum and then also the active management of capital in our joint ventures on the renewables side.

I do think for Russia, Russia needs to also think about sectors like district heating more broadly, how to incorporate lower-emitting fuels like waste and biomass into the systems and incentivise also heat offtake.

Then, with regards to CO2 emissions pricing, the European market is interconnected, so higher CO2 prices will impact also Nordic prices. What is the impact at any given time, it is subject to

many factors: inter-connection capacities, local conditions like in the Nordic case hydrology, temperature, renewables production. So, it is hard in the short run to sometimes see what the impact of the different factors are if the gas, CO2, coal, how does it show in SE2 price in Sweden, but indirectly it does show. And then the question is, what is the connectivity and what are the local conditions?

Pasi Väisänen

Great thanks. That was all from my side.

Operator

Thank you. Our next question comes from Artem Beletski from SEB. Please go ahead. Your line is now open.

Artem Beletski

Yes, thank you for taking my questions and I actually have two still to be asked. So, first of all, relating to Baltic divestment; I will ask it differently. Looking at valuation of what you have achieved for the asset excluding subsidies, is it far off from multiples what got from Finnish divestments last year? So basically, Joensuu and Järvenpää. And the other question is relating to Nordic markets and you, Markus, mentioned that there has been big pricing temperature volatility in Q1. Could you maybe comment on potential optimization benefits? How you have seen the year start developing from that perspective?

Markus Rauramo

For the multiple excluding the subsidies. I think the multiple from my point of view was on historical basis, looking at present transactions in the sector, looking at transaction multiples in other businesses, it was high. It was not as high as in the case, for example of Järvenpää and Joensuu, but on a very significant level.

With regards to optimization, that's definitely a key profit contributor for us and last year we made really good results from the physical optimization and financial optimization. And then we'll pretty soon report on how it went for Q1. So, it's just a few weeks left of March, so we'll get back to that rather soon.

Artem Beletski

Okay, great, thank you and welcome back to the Fortum team from my side as well.

Operator

Thank you. Unfortunately, that's all the questions that we have time for, so I will now hand over back to the speakers for any other remarks.

Ingela Ulfves

Thank you so much, Operator, and thank you all for your questions. Unfortunately, as we were limited to one hour, we're already over time, so any questions left, please address them directly to the IR team and we'll be more than happy to help. One addition as this Stockholm Exergi and associated result came up at several questions, just to clarify, in 2019 they actually had quite substantial impairment, so Stockholm Exergi, 66 million impairment, which resulted in 22 million at the Fortum associated result. So, that is why that number is negative.

But with this, thank you everyone for participating here today and on behalf of the whole team here we wish you really nice rest of the day. Thank you.

Markus Rauramo

Thank you very much for your activity. Thanks for being with us today.