Fortum CMD: strategy update – new financial and climate targets with a clear path to carbon neutrality and a growing dividend

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- Fortum has updated the strategy for the whole Fortum Group to drive the clean energy transition and deliver sustainable financial performance.
- Aligned with the goals of the Paris Agreement, Fortum targets carbon neutrality by 2050 with ambitious mid-term targets.
- Fortum has updated its financial targets: Financial net debt/comparable EBITDA below 2x and climate-dependent hurdle rates for new investments.
- The updated dividend policy targets an over time increasing dividend; the Board of Directors aims at a dividend of EUR 1.12 per share for the year 2020.
- 2021 capital expenditure for the whole Fortum Group is estimated to be approximately EUR 1,400 million, including maintenance and excluding acquisitions.
- Significant cooperation benefits with Uniper identified; estimated to deliver annually more than EUR 50 million by the end of 2023 and approximately EUR 100 million in 2025.
- CO_2-free power generation growth includes target to build 1.5-2 GW of new onshore wind and solar power generation capacity by 2025.
- Fortum has today decided to initiate a strategic review, including possible divestment, of its Consumer Solutions' business.

The updated strategy will be presented in more detail this afternoon at Fortum's Capital Markets Day.

Fortum has transformed itself, having invested about EUR 11 billion over the past six years to become Europe's third largest CO_2-free power generator and a large player in gas. As such, Fortum is now well positioned to capture opportunities resulting from the energy transition, aimed at curbing climate change. To be successful, the energy transition must balance sustainability, affordability, and security of supply. It requires not only renewables, but also increasingly clean gas, energy storage, and other flexible solutions to provide security of supply and to decarbonise also industry, transportation, heating, and cooling.

"*With this strategy update, we are now laying out the path and targets for the whole Fortum Group, including Uniper as one of our segments. Since I took office as CEO this summer, we have worked closely with Uniper on the Group strategy and leveraging the unique cooperation opportunities. Building on the strengths of both companies, our future growth will be driven by CO_2-free power generation and clean gas, sustainably transforming our own operations to become carbon neutral and engaging customers and society to decarbonise,*" says **Markus Rauramo**, President and CEO of Fortum.

"I am especially pleased that as a major international energy group, we have now formalised our commitment to the Paris Agreement by setting ambitious climate targets and a commitment to reduce our carbon footprint. We target carbon neutrality in all our operations by 2050 at the latest and in our European generation already in 2035 at the latest. As intermediate steps, we will reduce our coal-fired generation capacity to less than half by the end of 2025 and cut CO_2 emissions in our European generation by more than 50% by 2030 compared to 2019," Rauramo continues.

Purpose statement and strategic priorities

As part of the strategy update, Fortum's purpose (replacing the previous vision and mission statements) has been defined as:

Our purpose is to drive the change for a cleaner world. We are securing a fast and reliable transition to a carbon-neutral economy by providing customers and societies with clean energy and sustainable solutions.

"*With our strategy we want to drive the clean energy transition and at the same time deliver sustainable financial performance,*" Rauramo continues. "*In implementing the strategy, we will initially prioritise ensuring our financial strength and gradually increase the investments in clean power and gas as well as solutions for industrial and infrastructure customers.*"

The strategy builds on four priorities:

Transform own operations to carbon neutral

Transforming our own operations to carbon neutrality is a long-standing priority for Fortum. To accelerate the development, we have committed to the following ambitious climate and environmental targets:

- Carbon neutral, in line with the goals of the Paris Agreement, by 2050 at the latest (scope 1, 2, and 3 emissions)
- Carbon neutral in European generation by 2035 at the latest (scope 1 and 2)
- Reduction of CO_2 emissions (scope 1 and 2) in European generation by at least 50% by 2030 (base year 2019)
- Number of major voluntary measures enhancing biodiversity ≥12 in 2021

During 2021, Fortum will develop a target for the reduction of scope 3 emissions addressing the indirect emissions from our fuel sales business (category 11).

Fortum's coal-fired generation capacity will be reduced by more than 50% by the end of 2025, to approximately 5 GW. Measures for the reduction include coal-fired plant closures in Germany announced by Uniper earlier this year (updated this week): 0.9 GW at the end of 2020, 1.5 GW by end of 2022, and a further 0.5 GW by the end of 2025. The reduction also includes the closure of Uniper's 2 GW in the UK by the end of 2025 and Fortum's previously announced commitment to discontinue the use of coal in Espoo by 2025.

On Tuesday this week, Uniper announced the end of commercial operations at the 0.9-GW Heyden power plant already at the end of 2020, 5 years earlier than previously announced. This is a significant step in the execution of Uniper's ambitious coal-exit plans and it alone corresponds to a 8% reduction in the Fortum Group's coal-fired capacity.

Strengthen and grow in CO_2-free power generation

Fortum's investment in Uniper was a step-change, increasing the Group's CO_2-free power generation by 60% and making us the third largest CO_2-free power generator in Europe. We continue to focus on optimising and maintaining our benchmark operations in hydro and nuclear.

We will also focus on growing a sizeable portfolio of onshore wind and solar based power generation primarily in Europe to make it a meaningful EBITDA contributor. The target is to build 1.5-2 GW of new capacity by 2025. This capacity will partly be built on our own balance sheet and partly using the 'build-operate-transfer' business model.

To ensure focused and effective implementation, we aim to have a one-team-approach for Fortum's and Uniper's Nordic hydro and physical trading optimisation as well as for solar and wind development in Europe.

In our Russian operations we will gradually transform our asset portfolio towards renewables, while over time reducing our fossil exposure.

Leverage strong position in gas to enable the energy transition

Through Uniper, Fortum is now also a major player in gas with its benchmark gas-fired power generation and gas midstream business, which provides gas for heating and various industrial needs. As Europe transitions away from coal, our gas assets provide much-needed flexibility to the power system, enabling fast growth in solar and wind power. Our aim is to decarbonise our gas-fired power generation through conversion to clean gases over time.

Gas plays a vital role in many areas outside the power market, and we will also continue to focus on the reliable supply of gas for heating and industrial processes. Our aim is to continue to optimise our gas supply and storage, and grow our share of contracted sales to wholesale and industrial customers. In the longer term, natural gas usage will transition towards clean hydrogen and synthetic gases. Our strong position in the gas value chain and CO_2-free power generation create good pre-requisites for us to succeed in providing clean hydrogen solutions in the future.

Partner with industrial and infrastructure customers

In line with its purpose, Fortum wants to engage with customers and societies to help decrease their environmental footprints. Accordingly, we aim to provide industrial and infrastructure customers with decarbonisation and environmental solutions, such as grid stability, waste-to-energy, and low-carbon industrial solutions.

The development of the hydrogen economy will play a key role in decarbonising Europe. The ambition levels of the EU and several member states are very high. Fortum aims to build on Uniper's first-mover position in hydrogen, the Group's position as Europe's third largest CO_2-free power generator, our long-term customer relationships, as well as our strong expertise in engineering, trading, risk management, and gas storage to develop and capture the opportunities in hydrogen as they become commercially available. We aim to have one dedicated team in hydrogen.

Financial targets, dividend policy, and 2021 guidance for capital expenditure

Fortum has updated its financial targets and dividend policy. Fortum continues to be committed to maintaining a rating of at least BBB. The long-term financial targets are:

- Financial net debt/comparable EBITDA below 2x
- Hurdle rates for new investments of WACC
  - +100 bps for green investments
  - +200 bps for other investments

Fortum's dividend policy has been revised and 'is to pay a stable, sustainable, and over time increasing dividend'. Fortum's Board of Directors aims to propose a dividend of EUR 1.12 per share for the year 2020 with the target to increase the dividend going forward.

The estimated annual capital expenditure for the whole Fortum Group, including Uniper, for 2021 is approximately EUR 1,400 million, including maintenance and excluding acquisitions, of which the share for maintenance is estimated to be EUR 700 million

"*A successful implementation of our updated strategy will create value for the benefit of both Fortum and Uniper and all our stakeholders. For us, it is important to be able to pay an overtime increasing dividend while we transition to carbon neutrality,*" says Rauramo.

Cooperation benefits

In parallel with the strategy alignment, Fortum and Uniper have together identified cooperation benefits with a positive cash impact on a consolidated Group basis of approximately EUR 100 million annually. More than EUR 50 million of these annual benefits are estimated to be achieved by the end of 2023, with full effect of approximately EUR 100 million annually in 2025. Through this cooperation we will be able to create value for both companies and their shareholders.

Strategic review of Consumer Solutions

In line with its strategy and continued review of the business portfolio, Fortum has decided to assess strategic options, including possible divestment, of its Consumer Solutions business. Based on initial assessments, this business has been identified as operations that could provide higher growth and value potential with an alternative ownership structure.

Consumer Solutions is responsible for Fortum's electricity and gas retail business in the Nordics, Poland, and Spain, including the customer service, and invoicing business. Fortum is the largest electricity retail business in the Nordics, with approximately 2.4 million customers across different brands in Finland, Sweden, Norway, Poland, and Spain. The business provides electricity as well as related value-added and digital services.

In 2019, Fortum's Consumer Solutions sold a total of 30.6 TWh of power and 4.1 TWh of gas with a comparable EBITDA of EUR 141 million. The segment employs approximately 1,100 people.

Fortum Corporation

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Capital Markets Day

Fortum arranges a virtual Capital Markets Day as a webcast for institutional investors and analysts today, 3 December 2020, at 13.00 –16.30 EET.

The link to the live webcast for the event is published on Fortum's CMD 2020 website at: www.fortum.com/cmd

Media conference

Following the CMD presentations, we will offer all members of the media an opportunity to ask questions to Fortum’s Senior Management during a dedicated media call at 17:00 EET (16:00 CET). Markus Rauramo, CEO of Fortum, and Andreas Schierenbeck, CEO of Uniper, will both be available to answer your questions at that time. To participate in the media call, please use the following telephone dial-in details:

- Fortum Group Strategy Update – Media Call on Dec 3, 17:00 EET (16:00 CET)
- When prompted by the moderator, please reference this event name: “Fortum Group Strategy Update – Media Call”
- Access numbers
  - International access & UK +44(0)203 003 2666
  - Finland +358 9 2319 5437
  - Germany +49 (0) 30 3001 90612

Please note that this media call is being offered to both national and international media and will therefore be held in English.

Disclaimer

No decisions have been taken yet on concrete measures described hereon as these need to be further elaborated and assessed by Fortum and Uniper. Any final decision will be taken separately in the best interest of Fortum and Uniper, respectively, and all their shareholders. All business cooperation between Fortum and Uniper is subject to the arms-length principle. The updated strategy announced by Fortum in December 2020 is based on assessments made independently by both Fortum and Uniper. Fortum and Uniper have committed to the Group strategy in the best interest of the respective company and all their shareholders.

Fortum

Fortum is a European energy company with activities in more than 40 countries. We provide our customers with electricity, gas, heating and cooling as well as smart solutions to improve resource efficiency. We want to engage our customers and society to join the change for a cleaner world. Together with our subsidiary Uniper, we are the third largest producer of CO_2-free electricity in Europe.
With approximately 19,000 professionals and a combined balance sheet of approximately EUR 69 billion, we have the scale, competence and resources to grow and to drive the energy transition forward. Fortum's share is listed on Nasdaq Helsinki and Uniper's share on the Frankfurt Stock Exchange. www.fortum.com