Transcription

Fortum Q3 / 2021 Interim Report

{EV00128306} - {01:33:37}

12 November 2021

PRESENTATION

Ingela Ulfves

Good morning everyone and welcome to our joint webcast news conference on Fortum's third quarter 2021 results. This event is being recorded and a replay will be available on our website after this event. My name is Ingela Ulfves and with me here in the studio today are our CEO, Markus Rauramo, and our CFO Bernhard Günther, who together will present our third quarter and nine-month figures.

After the presentation we will be ready to take questions from the teleconference.

So with this, I now hand over to Markus to start. Please go ahead.

Markus Rauramo

Thank you very much, Ingela, and good morning also on my behalf. Welcome to our nine-month 2021 results call. After a first look on the headline performance indicators, I will go through the market drivers that have played a substantial role this quarter with outstanding movements in commodity prices, especially in gas. I will link this with our overall operating performance. Additionally, I will talk about how we are progressing with implementing our strategy and my view on our operating environment, and then hand over to Bernhard to walk you through the numbers in more detail.

I start by setting the frame looking at the headline KPSs. This quarter definitely was a rather extraordinary one. Volatile, characterised by market fundamentals. At first glance, we have a very strong Group performance across the headline KPIs in the third quarter and first nine months.

Starting from the balance sheet, most importantly, our leverage defined as financial net debt to comparable EBITDA has come down tremendously. We have substantially worked to strengthen our balance sheet. Following the sale of our 50% stake in Stockholm Exergi, and our district heating business in the Baltics, we are way below our set leverage target of below 2x, which is paving the way for growth in clean energy and gas as highlighted in our December Capital Market Day.

In Q3, earnings could take profit from the strong increases in energy commodity prices that are supported by the ongoing economic recovery and constrained supply, reaching multiyear and new record highs during Q3.

Q3 profit was operationally strong across the segments. Nearly all business segments are up year on year and could take profit from this development. But let me also highlight that it has been a challenge for the whole organisation to deal with this market development, especially when it comes to maintaining security of supply for our customers and to keep financial liquidity high in order to finance cash requirements for collaterals caused by rising prices.

Those of you who have followed the Uniper call last week know that Uniper took a series of financial and operational measures, including some Group support to safely navigate through the situation. To me it shows that we are as a combined Group, even stronger than before.

Those measures are also reflected in the operating cash flow that tripled in the isolated quarter and doubled in the first nine months. Bernhard will give you further insights in the financial section.

Looking at the nine-month earnings figures, we see a substantial increase despite the fact that there are some consolidation effects at play that must be considered. On the one hand, Uniper was fully consolidated starting from Q2 last year and has been included as an associated company still in Q1 2020. Comparable EPS for the first nine months 2020 also included the Q4 2019 Uniper associated result. On the other hand, there are phasing effects at work in the Uniper segment caused by the strong increase in carbon prices, shifting profit into the last quarter.

Even taking this into account, it has been an extraordinary quarter. To sum it up, stronger performance in a volatile commodity market with an organisation giving its best, serving our customers, working closely with our suppliers and maintaining our strong financial flexibility.

Now over to the market fundamentals. Despite recent concerns about rising inflation and uneven access to COVID-19 vaccines, global economic recovery continues with the IMF forecasting 5.9% growth in 2021 versus 3.1% contraction in 2020. Energy commodity prices soared in Q3, supported by ongoing economic recovery and global supply constraints, especially in gas. Higher demand combined with longer term negative investment trends and long-term, short-term supply constraints created an unprecedented price rally.

In costs of the autumn, the gas market moved from oversupply to tightness and uncertainties ahead of winter sent gas prices to uncharted territory. Initially driven by supply limitations, coal prices were soaring on advancing demand recovery and bullish energy commodity complex.

At the same time, CO2 prices continue to be supported by Europe's climate ambition and the EU's Fit For 55 package. Consequently, gas, coal and carbon prices underpinned the very strong price development in the European power markets. Continental power prices have given a boost to Nordic spot price, which was also supported by low precipitation and less wind available.

The spread to German power prices, however, is nevertheless quite large, especially in forward prices. Besides strong wind build-out, internal transmission net and interconnector restrictions and bottlenecks had an impact on the widening spread. But next to the peer market fundamentals, there is another dimension. The high energy prices are a concern to end customers having problems to cope with their utility bills, which is ultimately increasing the risk for political interventions. Additionally, the high energy prices are a threat to the economic recovery.

Looking at the forwards, the market expects the tight situation to continue throughout the winter, but forwards are at a more moderate level after the winter. For the Nordic market, my read is that the situation is by far not so severe as in continental Europe as power prices are still on more moderate levels, and because gas is not playing that often, an important role in the Nordics.

The gas market is the backbone for the energy supply in continental Europe. As this is a mature market and well supported by gas storages, it can normally digest major swings in supply or demand. In just one year, energy commodity markets did a 180-degree turn from oversupply to tightness.

Last year's over-supply in gas was exacerbated by COVID-19. But first signs of economic recovery in late 2020, early 2021, combined with a cold last winter lifted prices and future demand expectations. Then demand recovery continued, but supply continued to lag behind. In Q3, supply tightness took centre stage, making upcoming winter increasingly uncertain and accelerated commodity prices.

Energy supply has a major impact on EU gas prices. Europe acts as a global LNG market balancer with imports rising strongly when the global LNG market is loose and vice versa.

Strong demand in Asia and Latin America pulled volumes away from Europe this year, leaving European LNG imports 23% and 26% lower compared to 2019 and 2020.

The share of LNG in European gas supply decreased from 19% in 2019 to 16% in 2021. Additionally, the long-term trend of declining domestic production continues with the planned gradual ramp-down in production, particularly in the Netherlands, further tightening European gas supply. Domestic production now contributes 18% of overall supply compared to 34% ten years ago.

Russian pipeline flows fell in 2020 in response to the oversupplied market and ramped up in 2021 although failing to reach 2019 levels. The Severny Russian pipeline gas remains unchanged at 31% between 2019 and 2021.

Norwegian supply has been relatively stable, representing about 25% of supply. Norwegian pipeline flows to Europe were affected by heavier than usual maintenance this year. Looking at the gas storage filling levels, the tighter supply picture is also reflected in comparably low storage inventories. But please note that Uniper's storage physical filling levels are at 95% at quarter end and therefore close to prior years' level and around 20 percentage points above market average showing how serious we are about security of supply for our customers. The strong increase in gas prices also shows that security of supply is core, that it is not for free, and that it belongs back on the European agenda.

How this translates into earnings is shown on the segment split, which I will now go through. Q3 is normally seasonally a weak quarter. Looking at the isolated quarter, the overview of the comparable operating profit on a divisional level shows clearly that the year-on-year deviation is determined by our two biggest segments, Generation and Uniper – especially the gas business.

The main effect in the isolated quarter comes from Uniper segments global commodities gas business that was significantly above the previous year. Additionally, generation and also City Solutions show a strong uplift based on good operational performance and market fundamentals. Russia and Consumer Solutions where netting out despite stronger underlying performance. Bernhard will give further details in his section.

The overview of the nine-month comparable operating profit on a divisional level shows, in essence, again three things. Nearly all segments have been contributing positively year on year. Uniper is the main driver for the result improvement following a strong first and third quarter, but also based on the highlighted full consolidation in Q2 2020.

Generation at City Solutions show a strong uplift based on strong underlying performance. What the picture does not show is that the Russian division posted a stronger underlying performance with higher prices and volumes. To sum it up, I'm very satisfied with the performance across the Group.

Before I hand over to Bernhard, let me give you a brief overview on where we are with our strategy execution.

With our strategy, we are securing a fast and reliable transition to a carbon-neutral economy by providing customers and societies with clean energy and sustainable solutions. We have defined our four building blocks in our joint strategy.

Number one, transform our own operations to carbon neutral; two, strengthen and grow in CO2-free power production; third, to leverage our strong position in gas to enable the energy transition; and fourth, partner with industrial and infrastructure customers.

So, how are we progressing with all of this? First, we are moving fast on our decarbonization ambitions. In Russia, we have been progressing to discontinue the use of coal in Fortum Russia by the end of 2022. In Q3, we closed the divestment of the Argayash coal-fired CHP that is still needed for security of supply for the region. And we will in a next step, switch the fuel of the Chelyabinsk CHP-2 unit from coal to gas.

Last time at this stage I highlighted that we have been able to announce the accelerated closure of almost 40% of our coal-fired generation capacity in Europe within less than one year. Today, I'm happy to say that we closed the Group's lignite chapter in Germany with the closing of the divestment of Uniper’s Schkopau lignite plant.

This is another major step on our way to reduce our carbon emissions in Europe by 50% until end of this decade. Gas will play a critical role in the energy transition. The decarbonization of gas will be a key element to decarbonize the energy and coupling factors. With our gas business we are well positioned to ensure reliable and flexible gas-fired power generation to enable increasing the share of renewables in the system.

Uniper has a strong position in gas mid-stream in Europe, including procurement, storage, trading and sales. We want to build on this position and secure increasingly clean supply of gas for heat, power and industrial processes. Natural gas will be gradually replaced with clean hydrogen. Uniper takes major steps in building a substantial hydrogen portfolio.

Second, we are ramping up on renewable growth. We want to drive profitable growth without compromising on Fortum’s dividend and financial strength. Fortum has been a front runner in creating clean energy generation for decades. We recently won a major share in the latest Russian window auction to build 1.4 GW of wind with our joint venture partner Rusnano for 2025/2027. We secured 15 years of CSA-backed contracts exceeding our hurdle rate of weighted average cost of capital plus 100 basis points.

We are also progressing with our existing 1.8 GW of existing projects. 1.3 GW are in operation or under construction and 500 MW still under development. When it comes to renewables projects outside Russia, I can say that things are moving in the right direction, but we will not compromise on our value-creation targets.

Third, we strengthened our balance sheet substantially. In the third quarter, we closed the divestments of our 50% ownership in Stockholm Exergi, and the sale of Baltic District Heating, contributing altogether proceeds of €3.6 billion. With these successful divestments, we have yet again demonstrated that we are constantly creating value for our shareholders and that we deliver on our strategy and our priority of maintaining a financially strong Group.

Our leverage of currently 0.6x financial net debt to comparable EBITDA is clearly inside our target of below 2x, underpinning our credit rating of BBB flat with stable outlook. We have good access to capital and capital markets with our liquid funds of 6.2 billion and undrawn credit facilities of €3.7 billion at the end of Q3. When it comes to how we will redeploy this capital, let me briefly reiterate what I have said last time at this stage. We are looking for balanced growth that is the triangle based on earnings power with stable an over-time increasing dividend, and a stable investment grade rating of at least BBB flat, that is necessary in our capital-intensive industry, having to secure access to low-cost debt.

All those elements should mutually support each other and not have one of these corners dominate. After the successful strengthening of the balance sheet, the question is where to best deploy our capital. This will be growth in clean energy and gas. Having said that, I want to address some topics regarding Uniper on the next slide.

Uniper has proven to be a valuable addition to the Fortum Group. The earnings development in recent years has been strong following the recovery of commodity prices and Uniper has demonstrated its ability to embrace change in sync with market dynamics.

We are progressing on our One Team initiatives with determined steps. A joint organisation has been established at Fortum's generation segment for the Nordic Hydro and physical trading optimization with 400 employees. The new organisation will become effective in the first quarter of next year. We are also combining our forces under Uniper in developing one team for renewables and hydrogen. This is taking shape. Joint teams have been staffed and the business is being developed. As we are achieving promising initial results from corporations, so far, we have further extended this work across Fortum's and Uniper's businesses and functions.

One of the latest examples is that we have joined forces in nuclear decommissioning services, which is one of the obvious collaboration fields, creating value for both companies in the combined Group. So, as experience has shown, working together as one Group is making us stronger, faster, more efficient and more profitable. In order to drive efficient execution of our joint strategy and value creation, we have also explored possibilities for further harmonisation across the Group beyond corporation, for example, on cultural harmonisation. This is a comprehensive process which will take its own time.

We entered the process with no predefined outcome and will take all aspects into account. As many of you have been asking about our ownership and dividend, let me also comment on those. As you know, we have no restriction nor obligation to buy shares in Uniper. At the end of 2020, our ownership was around 76%. Since July this year, after the share price increased above the €30 to €31 level, we have not been buying anymore.

On the dividends, I can confirm that Fortum Group's dividend policy is intact. Regarding Uniper, it is still premature to discuss any dividend matters, but it is certainly prudent to carefully weigh the dividend against growth ambitions, financial position, cash flow and rating. The recent volatile market dynamics further enhanced the need to carefully consider the matter.

With this, I conclude my part and hand over to Bernhard for the financial section Bernhard, please

Bernhard Günther

Thank you, Markus, and a warm welcome also from my side. As usual, I will start with the financial overview of our key comparables. As this quarter has been quite exceptional in terms of market price movements, I will additionally run through some reconciliations how the market volatility has affected our balance sheet, P&L, and cash flow. This will then be followed by the usual view on the segments, financial net debt, and outlook.

So, starting with a key financial overview summarising some indicators on the comparable level. Let me begin with the obvious. What you see here is a substantial increase across all KPIs following market fundamentals.

First, looking at the isolated Q3, in the two left columns, one would normally expect a slightly negative summer quarter, as power generation is quite low, while costs are flat, and operating cash flow tends to be low as well as we build up gas inventory over the summer for the winter season. But this quarter we saw, as most of you know, extraordinary market fundamentals, providing us with opportunities to optimise our portfolio.

Second the nine-month figures are not quite comparable to the 2020 ones as they are affected by the consolidation of Uniper to the income statement from Q2 2020 onwards. Consequently, the LTM column on the very right is probably the best representative indicator for the Fortum Group. From there, one can see the current level of comparable EBITDA at €3.6 billion and this is somewhat above what I showed you in the previous quarters. The same applies to comparable EPS being at 1.990 [ph 00:23:32] per share, in essence, driven by the improved market conditions.

Our financial position has improved following the closing of a series of divestments that Markus mentioned before. Our credit metrics are rock solid with financial net debt to comparable EBITDA being at just 0.9x and accordingly well below our target of below 2x. Depending on the market development and working capital movements in the Uniper segment, we might see some change towards year end.

Having said that, let me address what is not so obvious on this slide. The strong increase in market prices gave us, and especially our Uniper segment, major opportunities to optimise the portfolio. This had some unusual consequences. First, the strong increase in market prices did not only impact sales, but it also impacts the fair value of our financial derivative, and as a consequence, which is a consequent of our hedging and risk mitigation activities. Those values went up by a factor of 10x, tripling our balance sheet to €164 billion, and that’s compared to year-end 2020.

Second, what you can see on our balance sheet, as most of our hedges are placed as traded markets, the collateral and margining requirements we have to post have gone up substantially. Uniper faced significant variation margin calls in the third quarter. Uniper worked closely with their business as well as their financing partners to make sure that both cause and the resulting liquidity risks were properly managed. In order to achieve this in the most efficient way, Uniper relied on a broad set of tools, including commercial papers, bank loans, intra-Group loans, and ultimately also operational measures within the commodities portfolio. The very high operating cash flow that you see in our numbers in the third quarter also reflects those measures undertaken by Uniper.

Third, when it comes to the reported figures, the picture looks different to the comparable figures as those changes in share values are also reflected in the reported numbers. I will guide you through this on the next slide.

What you see here is a reconciliation of the nine-month comparable operating profit all the way down to reported net profit. At first glance, this waterfall makes easily transparent that there are in essence two drivers for the mismatch in comparable and reported figures and those are both Q3 related. None of the drivers is new to you, but the magnitude of sum is unprecedented.

First, there's a positive impact, that's the capital gains of the closing of the divestments of our 50% stake in Stockholm Exergi and of the Baltic District Heating of in total €2.6 billion. As these are one offs, we adjust for those.

Second, another item affecting comparability is the change in values of derivatives that are used for hedging future cash flow, mainly in the Uniper segment where hedge accounting is not applied. Other Fortum segments are applying hedge accounting and thus the volatility in valuation is balanced versus equity there. As commodity prices have surged, the hedge deals have significantly decreased in value. The loss from hedge instruments valuation amounts to roughly €7 billion for Uniper standalone. However, the corresponding value of Uniper's underlying assets like power plants or inventories is not reflected here as their book values are kept at historic cost under IFRS.

This mismatch is only temporary and will resolve over time as the position settles. Therefore, it is expected to revert. Consequently, at this stage, nine-months operating profit is negative with €2.6 billion, including associates and finance costs, the nine-month profit before income tax is negative at 2.4 billion. Please note, as Stockholm Exergi has been divested, the associated result will be correspondingly lower going forward. Finance costs include interest expenses on our loans, but also the accrued interest income from North Stream 2 for Uniper. Income tax is significantly positive as a consequence of the recorded fair value losses. Now over to cash flow on slide number 13.

The strong increase in market prices brought funding requirements for collateral and margining to extreme levels. As most of our hedges are typically placed at traded markets, hedges are necessary to reduce the price risk and to have predictable cash flow and earnings over time. A certain volatility in margining receivables and liabilities is therefore part of this and normal cause of business. With commodity prices and their volatilities reaching unprecedented levels across pending margining requirements for the done hedges have gone up substantially, especially Uniper faced significant variations in the margin calls over the last weeks. This is reflected in the change in margin receivables in the net cash from investing activities and in the change in margin liabilities in the net cash from financing activities.

Uniper worked closely with their business as well as their financing partners to make sure that those calls and the resulting liquidity risks were properly managed. In order to achieve this in the most efficient way, Uniper relied on a broad set of tools. This includes commercial papers and bank loans reflected in the change in short-term liabilities bringing financing cash flow up. But also operational measures within the commodities portfolio having a positive impact on the change in working capital and ultimately on the operating cash flow. Consequently, the very high operating cash flow that you see in our numbers in the third quarter does also reflect those measures undertaken by Uniper. Therefore, please do not extrapolate the figure to the full year.

And ultimately, Fortum was always able to provide intra-Group loans to help through this extreme situation. For me, this is another example that a close collaboration between Fortum and Uniper makes us even stronger, as well as more profitable and shows the advantage of being one Group.

Now, over to the segments. Let's start with Generation. Comparable operating profit in Q3 increased by an outstanding 80%. This is the highest third quarter generation result since 2012. The result improvement was supported by the higher achieved power price of €43.7 per MWh with very successful physical optimization and higher spot price. While the system spot price increased up to €68.3 per MWh, the fairly high hedge levels and a hedge price below the level of the spot price dampened the effect on the achieved price. Higher hydro and nuclear volumes also contributed positively to the improvement.

Let's now have a look at the development of the hydro situation on the next slide. In Q3, Nordic Hydro reservoirs have been below average levels following no precipitation from the summer that continued in Q3 and led to a significant deficit in water reservoirs of 80 TWh below long-term average. And please remember that the started was a significant reservoir surplus of around 20 TWh following a very wet 2020. The trend of low precipitation and low wind speeds has persisted broadly throughout the first nine months of 2021, and we are still below average reservoir level. This development, in context of high continental European power prices had a major influence on Nordic spot prices with high volatility, considering that new interconnectors to Germany and the UK have been taken in use during the last 12 months.

Looking at the forward curve, the development has been quite volatile. Forwards, saw strong gains until mid-September, but change in weather forecast dropped prices back to the August level.

Now coming to our Russia division. Russia is showing a solid underlying performance, especially on the isolated Q3. Power generation volumes increased due to higher consumption following the economic recovery from the COVID-19 pandemic. Comparable operating profit for Q3 was up 13% to €45 million. The effect of the change in Russian rouble exchange rate was 4 million for the isolated quarter. And the net effect of the changes in CSA payments was slightly negative. Three units were entering the four-year period of higher CSA payments, while the CSA period ended for the CHP-1 and Chelyabinsk CHP-3. Additionally, we saw some corrections to the CSA prices due to lower bond yields.

On the nine months, the comparable operating profit improved marginally. We saw higher power prices, while there was a slight negative effect from the CSA, and please recall that there was a positive effect from the solar transaction with RDIF in Q1. The nine-month rouble effect was -€19 million. So, in rouble terms, there was a clear improvement in our Russian business.

Now to City Solutions. Our comparable operating profit was negative in Q3, but improved clearly compared to the previous year following higher power prices. Almost all business areas improved from the previous year, especially in the areas of waste and metal recycling businesses. There was a slight positive result effect of the structural changes from the divestment of the district heating business in the Baltics as the result of district heating and cooling business typically is negative in the third quarter. Operating profit was affected by the tax-exempt capital gains on the sale of the 50% ownership in Stockholm Exergi and the sale of the district heating business in the Baltics. As you know, this was very beneficial for the Group's debt factor.

On the nine months numbers, heat sales volumes increased by 6% and power sales volumes increased significantly, mainly supported by a different production mix in the Finnish heat business, in the first quarter, and the commissioning of a new solar power plant in India. Comparable operating profit increased tenfold as a result of higher heat sales volumes in all heating areas, higher power prices and higher Norwegian heat prices due to the price link between heat and power prices there. We are happy to see an improvement in our City Solution segment after a tough year, 2020, that was both affected by mild weather and low prices, and also by the COVID pandemic.

Now coming to Consumer Solutions. In Consumer Solutions, after a comparable EBITDA improvement in 15 consecutive quarters, we are now facing a challenging market environment with negative impacts of the rapidly increasing electricity market prices, combined with tough competition in the Nordic market, what ultimately resulted in a reduction in number of electricity customers during the third quarter.

This could not be offset by the positive impact from value-added services resulting in a comparable operating profit decrease by 28% quarter on quarter.

On the nine-month, comparable operating profit is nearly flat, mainly driven by the lower number of customers and some negative impact of the rapidly increasing electricity market prices during the third quarter. This was partially compensated by increased unit margins coming from active development and improvement of our service offerings. The strategic review of the business announced in December 2020 is ongoing.

And now, last but not least, to Uniper. As Uniper published their results last week, we can state some obvious general comments. Again, please note that Uniper has been included as associate in Q1 2020, giving some distortions when it comes to the first nine-month comparison. This holds true not only for the shown earnings, but also for the volumes.

Overall, I want to highlight that Uniper’s underlying performance has been very solid. While looking at Q3 2021, we see an extraordinary positive effect from the trading business, with Uniper upgrading their full-year guidance. Earnings at the European generation surpassed the prior year figure. The business benefited above all from the commissioning of Dutton 4 coal-fired power plant in late May 2020 and the return to commercial operations of Irsching 4 and 5 gas-fired generating units. They also benefited from higher income from the UK capacity markets, but suffered from the unavailability of Maasvlakte 3. A significant year-on-year earnings increase at global commodities is principally attributable to the gas business benefiting from volatile rising prices in the current financial year. Additionally, higher earnings from the international portfolio have been supported this year as well.

Earnings at Uniper's Russian power generation were at the prior year level. And now over to financial net debt.

Here you find the changes in our financial net debt and main items of our cash flow during the first nine months of 2021, showing two major items impacting financial net debt: First, the highlighted cash flow from operating activities that includes partly cash flow management activities to secure financial flexibility in the rising commodity complex that we saw this quarter; and second, the divestments made. Additionally, you'll see investments made of above €1.1 billion and dividends paid in similar size to Fortum shareholders or minorities.

With regards to the leverage target, our financial net debt to comparable EBITDA of below zero, we currently stand at 0.9 underlining our rock-solid credit metrics. We have currently €11.7 billion of gross debt and average interest rate for this whole loan portfolio is 1.3%, and please bear in mind that Uniper has also some interest income from their operations.

Now looking at the loan maturity profile, this might appear a bit frontloaded, but please note that the increase in short-term liabilities is linked to our cash reserves as we wanted to increase our financial flexibility in this extreme commodity market situation. And you see our liquidity position is very solid with liquid funds of approximately €6.2 billion. Additionally, since the 30th of September we have rolled over €1.3 billion from the year 21 to 22. Maturities in 21 also include loans of some €660 million with no contractual due date. Now finally coming to the outlook.

Our successful hedging has continued creating predictability and visibility and you can see also here again, the Uniper Nordic hedging numbers below the Fortum generation area. Regarding CapEx for 2021, we repeat what we've already communicated. Our total Group CapEx is estimated to be €1.4 billion for the whole year with maintenance around 700 million, and please bear in mind that there may be always a bit of volatility between the years as we have not provided guidance for the normalised maintenance CapEx going forward.

With this, I conclude our presentation and we are now ready to start the Q&A session. Ingela, over to you.

Q&A

Ingela Ulfves

Thank you so much, Bernard, and thank you also Markus for your presentation. So, as Bernard said, we are now ready to take your questions, so we can begin the Q&A session. Moderator, please start.

Operator

Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypads.

Our first question comes from the line of Vincent Ayral of JPMorgan. Please go ahead.

Vincent Ayral

Yes, good morning, and thank you for the presentation. I have a general question regarding the comments you made on the secure of supply. We've seen very high volatility in the commodity markets, and you raised the point of securing supply, renewables are not necessary contributing and interconnectors help to a very limited extent. And so, when you look at this, what is the solution? Is it indeed [inaudible 00:43:32] Uniper? And importantly, on the market design, do you think that changes to the market design are needed? You have at the moment merchants and outright assets and developing non-contracted renewals. So, you have a conundrum in your equity storage and what are you pushing for when you talk to the Commission. So that's question number one.

And related to this is the taxonomy. So you met with the EU commissioner Martinez to discuss but added [inaudible 00:44:13] nuclear and gas. [inaudible 00:44:18]. And how do you think it's heading on these two topics, before the end of the year?.

Markus Rauramo

Okay, thank you, Vincent. The line started to get a bit bad in the end, but I got the first question about security of supply. I can well answer that. On taxonomy you started to fade away, so, apologies and please then repeat if I didn't get that right.

But if I start with the security of supply, I would start from that angle. What the markets need is security of supply, affordable energy and clean energy. And I would say that we are in a good position to provide that today with our capacities and we can see that we can answer the mid-term and even ad hoc needs of security supply into the various markets we are operating. And I take on that ad hoc point that we see in some areas that the TSOs and regulators have to fix things quickly. We can respond to that. We can also provide mid-term solutions with rotating masses and flexible gas as we are doing today. But what we are encouraging the regulators to do is to build a predictable and long-term and visible path how we want the energy transition to happen.

But I would say that from our point of view, we can adapt to the different setups. Then it's up to politicians and regulators, how do they find a societal agreement, which type of energy system do you want to have? We will work in both.

On the specific questions on, for example, CCGTs, it looks like if you take the prospective German governments, for example, increased ambitions in renewables, increased ambitions in coal phase-out will obviously result in the need for flexible gas that they have also vocally mentioned, and that's a good segue to the EU taxonomy. So yes, we indeed met with the Commissioner, and we have been visiting Brussels, talking with politicians locally and on an EU level. And our key point is test that we think that transitional gas and nuclear should be part of the taxonomy-aligned generation forms, because they will be needed for the renewables penetration to happen.

If we exclude transitional gas, make it difficult to finance, it will reduce the penetration of renewables. If we exclude nuclear, that will lead automatically to less maintenance investments, less lifetime extensions and that will impact the half of the current CO2-free generations, and that's why we're advocating both of these.

We had good discussions with the Commissioner and just encouraged the Commission to come up with the delegated act and the taxonomy proposal with a fast timetable. Good discussions.

Vincent Ayral

Just to follow up on that. Timetable for evolution of the taxonomy, we've seen in some press articles potentially in coming weeks – so you talk about timetable. Could you clarify a bit there? And regarding predictable pass or market design: Some politicians are actually asking for a change of design with potentially long-term contracts for CO2-free generation and that would be including probably nuclear and hydro. How do you see this? Thank you.

Markus Rauramo

With regards to the data, the only thing I know is what the Commission itself has said that they would want to come out with— Their target is to come out with the proposal, I think, on this side of the year, so I understand that they're really working hard to table a proposal. That's enough. We should ask the Commissioner and the Commission what they can do.

With regards to how to overall think about the different production forms. What we like very much is the European approach on emission trading, and that the Fit for 55 package includes more sectors, it has more ambitious linear reduction factor. This is a good way; we have seen that the sectors in ETS have achieved their reduction targets. Of course, they will achieve their reduction targets because you're not allowed to emit more than what the ETS cap allows. We think this is a good example for now on the back of the ongoing COP26 discussions, this would be a model that has worked now, for example, for countries like Brazil, China, India, Russia, the US. Comprehensive emissions trading systems technology neutrality, efficient capital allocation, would result, in our opinion, in low-mission reliable and low-cost energy systems.

Vincent Ayral

Thank you.

Operator

Before we go to the next question, if I could ask telephone participants to use headsets or handsets when asking their questions. Thank you very much.

Our next question comes from the line of Lueder Schumacher of Société Générale. Please go ahead.

Lueder Schumacher

Good morning, Lueder, here. SocGen. Three questions from my side. The first one is on Nordic power prices. On a relative basis, they seem to be artificially cheap compared to whatever you want. German power prices, coal-generation costs. And I know you don't usually comment on calendar forwards, because it's just an opinion, but what strikes me as spot prices, because they always reflect the reality. Now there's normally a very strong correlation between Nordic day-ahead prices and Oslo day-ahead prices, which makes perfect sense as the amount of hydro in this system is determining prices. However, in Q3, this correlation has completely broken down. So, we see Oslo, Norwegian spot prices still very high, which would be in line with the deficit we are seeing in hydro reservoir levels – you mentioned earlier the 18 TWh – but Nordic spot prices have come back a lot since October. I would be interested to hear your view on both going on there. As I say it's a very strong correlation that held for a long time and this has completely broken down in Q3 and afterwards.

The next two questions are a lot more simple. Bernhard, thank you very much for taking us through all the adjusted items. Could you also tell us where you actually see adjusted net debt at year end with all the numerous non-operating results impacting the numbers and potentially reversing in Q4. So, the year-end adjusted net debt level would be interesting.

Then lastly, on the Russian wind auction. You did give us the IRR that you secured there. Can you also give us the exact level of the CSA payments you secured in that auction and also confirm that you actually have locked in all the component cost for the project already?

Markus Rauramo

Okay, maybe I'll let Bernhard start with easy question of where the net debt will be at end of Q4.

Bernhard Günther

Hi Lueder. This question does not come as a complete surprise to us. Probably our answer won't either. So, as you know, we don't guide net debt. And especially after this volatile quarter in terms, not just earnings volatility but also the cash flow volatility which we commented where we had, also shifts, especially on the Uniper global commodity side between quarters, we just said you should not extrapolate the Q3 developments one-to-one to the full year. So, sorry for that, but that's as much as we can say.

Lueder Schumacher

But Markus said it was a very easy question.

Bernhard Günther

It was easy, because the answer was maybe a bit predictable. Sorry to disappoint you there, but I think, if anything, the third quarter events were one more lesson in terms of how volatile our business can be. And of course, also how important it is to be a strong player.

Markus Rauramo

And obviously the easy part is a little bit tongue in cheek, as you all understand. Of course, we try to be as helpful as possible and the components and elements that are impacting those we know and then the tricky part is where will the markets move during the quarter, what is the operational performance and so on?

I think the really big key driver are the capital rotation elements and then the short-term impacts from the hedging and resulting cash flows. These will be probably volatile in the quarter and working capital impacts.

With regards to the first question about the Nordic power prices. If I start from the high level. What is driving the actual pricing is the supply/demand balance, the production costs. The total Nordic production portfolio, if we take everything, looks very different compared to the Continental European one. So, we do see, if you look at the different both achieved prices and realised prices and shot-them forward prices, we fully see the impact of the marginal cost of condensing on the continent. And on the other hand, nuclear, hydro, wind, combined heat and power, both for industrial and district heating on the Nordic side. So very different kind of production portfolios leading to very different kind of bidding into the market.

And then we know well that if we take the big picture Nordic versus continent, the live transmission capacity restrictions, these then ultimately will settle what the various area prices are.

The same then goes for the Nordics. So, there are certain price areas and how they are made up. You have the split within the countries and between those areas we have the same phenomenon as we would have between the Nordics and the continent in the big picture. So, depending on what the local dynamics are, that will result in the area prices and area forwards.

You mentioned the decoupling between Oslo and Nordic. That I can't really comment, but I'm thinking from the bigger picture. I don't know if you, Bernhard, have a view on that?

Bernhard Günther

It is certainly some very recent trend, and as Markus said, I'm also not the expert on market analytics, but what we have observed since the beginning of 21 is that there isn't a growing disconnect between the Norwegian, especially the Oslo, price areas and the Swedish price areas. So, also related, with the additional interconnector capacities, that theoretically, of course, should then spill over across the whole Nordic Copper Plate and we see basically that there seem to be congestion effects. And as far as I’m aware, also, Svenksa Kraftnät has conceded those and sometimes there seems to be a kind of curtailing of capacity between east and west flows between Sweden and Norway, and this is another factor, this overall, fragmentation of the Nordic Copper Plate that we have been observing in recent years.

Maybe just for your final question, Lueder, on the Russian wind auction. So, the CSAs there for new capacity are 2,600 going up to 4,200 roubles per MWh. That's the inflation adjustment.

Markus Rauramo

And you had the question about the comfort on the supplies. So yes, that would be a normal for us. When we place a bid, either we have secured contracts or, let's say, for this type of a situation where we talk about 2025/2027 volumes, we have good comfort that we get supplies at the levels, which then correspond to the mentioned project returns with these prices. So yes, we have comfort that we can make these returns.

One thing I'd note, and actually, our hurdle rate is to have plus 100 basis points, and projects can return more than that, which is also the case here, that we are targeting more. And the WACC takes this country risk into account. What is then positive with the prices that Bernhard mentioned, I think this was a real milestone in Russia, because now for Russian industries and international industries operating in Russia, this means affordable, competitive green energy. And you have seen that we have signed many contracts already for our wind power in Russia. Shell Baker Hughes, Magnitogorsk, InBev, Sperbank, et cetera. And now, in our recent trips to Russia, we are getting increasing and high interest actually to sign on green electricity.

So, I'm very happy about our ability also to speed up the decarbonization in Russia and helping the Russian industries, who are suppliers to European customers and European and global industries, green their business as well.

Lueder Schumacher

Okay, thank you very much.

Operator

Our next question comes from the line of Iiris Theman of Carnegie. Please go ahead.

Iiris Theman

Hello and thank you for taking my questions. I have a couple of questions please. So firstly, you reported a strong growth in hydro power volume year over year despites much lower hydro reservoirs in Sweden and Finland. So, what was the reason for this and what is the outlook for Q4 in terms of hydro power volumes?

Secondly how did your optimization premium included in your ASP calculation develop in generation if we compare it to for example Q2? And can you remind us what is the level where your optimization premium has been on average in history? And thirdly, I think in the Q2 call, you talked about a two-tier cost base for Q3 in generation. So how did these materialise and what to expect in terms of costs in Q4 in generation? Thank you.

Markus Rauramo

Okay, I can start with a couple of questions. The last question I didn't really catch it. If you can repeat that question, please.

Iiris Theman

Yeah, I think in the Q2 presentation you talked about a bit higher cost base for Q3 in generation. So how did this materialise?

Markus Rauramo

If I start with the with the strong growth in hydro – how would it match with the generally hydro reservoirs being lower. So, if you look at the whole Nordics, then the lion's share of Nordic reservoirs actually is Norway. So, much bigger than Sweden, and Sweden is bigger than Finland. So, what the overall situation in the Nordic hydro reservoir is not something that necessarily is the case for any individual producer. So, our situation with our reservoirs may be different. And with regards to Q4 hydro volumes, this is the same situation that there is a deficit compared to the long-term average, which has been narrowing a bit now in the recent weeks. But then our situation may be different, so we're not giving a forecast on the volume for the current quarter.

The optimization premium, that actually developed well and the physical and financial – historically it's been, we've said, a couple of euros, two to three euros. And I would say that now we're in the in the higher end of that optimization area. It's worked very well, and there are two factors. One is the volatility of prices and the other one is that RR as it's available, are they flexible, can we utilise the volatility when the situation is there. And we have been able to do that.

With regards to generation cost base. I don't know, Bernhard, if you have—

Bernhard Günther

I think if I understood you correctly, so the line is unfortunately not too good, you're referring to the Q2 remarks we made on generation costs. And what we said there is, because it was a relevant driver in the quarter-on-quarter comparison in Q2 and we explained that a significant part of it is of a non-structural, non-recurring nature and this is something we just can't confirm. It's not that we have increasing cost base as a major driver of explanation of quarter-on-quarter results in generation currently.

Iiris Theman

Thank you.

Operator

Our next question comes from the line of Peter Bisztyga of Bank of America. Please go ahead.

Peter Bisztyga

Good morning. Three questions from me. Firstly, your 6 billion of liquid funds, I guess would normally be very inefficient use of capital in what's still a negative rate environment. Is the reality now that you need that level of liquidity to manage commodity price volatility, particularly given that you now own Uniper? So how should we think about that please?

Following on from that, I'm not sure I understand the situation of the Uniper dividend. Are you suggesting that Uniper has some sort of liquidity issue and so it's better to retain the cash there? Or is there some other reason why you don't want them to pay you a dividend?

And then my third question is: your decision to stop buying Uniper shares in July suggests that you kind of think it's over valued now. Can we take that to mean that we should not expect a minority buyout as long as the share price remains elevated? Thank you.

Markus Rauramo

I'll let Bernhard take the illiquidity question, but with regards to the Uniper dividend, this is not yet the time to have to actually opine on that, neither the company to present or shareholder to take a view on that. I noted the elements that are important. Longer term question, how much returns of capital, how much capital into growth. And, indeed, the current liquidity situation, the current volatility is something that the company needs to take into account.

With regards to my comment about not buying beyond the range of 30/31, that's just a factual statement of what we have done. I'm not taking any view on whether we would be buying or not buying shares. For us it is an economical consideration. The earlier comment about the DPLTA and squeeze out, that's just a comment that we have said that until the end of this year, we will not do those, but that has not been restricting us from buying shares. And the comment about the timing and the and the price is a factual statement.

Bernhard Günther

Then, answering your first question, Peter, on the 6 billion liquid funds. Yes, the liquidity swings have been massive for big commodity players. So, if you just take as a hypothetical example, somebody who might have a portfolio of 100 TWh forward-filled gas, and then the price goes up by €10 per MWh, you know that's a billion. And we have seen price movements, as you know, well in gas which were far larger than €10 per MWh.

Of course, in the long run, this is inefficient, but of course in the short run we think this is prudent liquidity management.

Peter Bisztyga

Can I just maybe just follow up on that Bernard? You got very good liquidity because of the disposal that you've done. If you hadn't had that liquidity, would you just have been able to rely on short term loans, working capital facilities to fund would there potentially have been a problem over the last few months?

Bernhard Günther

I think as we said, as a Group as a whole, we have a pecking order of liquidity instruments. And there are certain ones like your revolving credit facilities which you would normally not draw without a reason, and there are others which you can easily tap into. And so we are in the comfortable situation, as you see from the numbers, that obviously we still had ample of water under the keel. But you also have heard that there were intra-Group loans between Fortum and Uniper. So, what I'm saying applies to the Group as a whole.

Peter Bisztyga

Okay, thank you.

Operator

Our next question comes from the line of James Brand of Deutsche Bank. Please go ahead.

James Brand

Hello, good morning. Just two questions from me. First, on the net debt, I appreciate you don't want to give guidance for the full year, but there's some pretty unusual swings in net debt, and I was just wondering whether you could maybe comment on the influences on net debt at the nine-month stage? A few thoughts, or do you think it will be temporary? Whether they will be temporary by year-end or not, or whether they'll just be temporary at some point? It would be useful to have a bit more of an idea as to what might reverse the influence on the 9M net debt.

And then secondly, I was wondering whether you could share your views on biomass. Because it's a fuel that you don't really talk about, Uniper doesn't really talk about. There’s obviously some debate out there as to whether biomass is really green or not, but in an environment where lots of people are trying to get their heads around how we can be balancing energy systems, maybe a bit less relevant than [inaudible 01:10:45] given that you have a lot of balancing power anyway, but taking pretty much the whole of the rest of the year, how are we going to balance power markets in environments where we have lots and lots of very intermittent renewables. It seems like biomass is quite an interesting fuel, and obviously in the Nordics you've got a lot of trees, you've got experience yourself with biomass. So, just kind of wondering what your views are on biomass and why we don't hear you talk about it more often? Thank you.

Markus Rauramo

I could start with the biomass and if you, Bernhard, take the net debt question. It’s a good question actually. So, if you look at the Nordic and Finnish energy mix, biomass plays a very big role. So, it comes either directly in district heating, cost generation of heat and power and also on the industrial side. So, for example, modern pulp mills are huge factories that churn out power and pulp and other side products. So, biomass in the Finnish context plays a very big role and I think biomass should be definitely recognised as part of the fuel sources for different processes.

Then looking at a European level, we talk about 5,000 TWh of annual gas use, 3,000 TWh of electricity use, and a big need to electrify the society in order to reach the climate goals, and all the forecasts I'm looking at are predicting that this comes through, first of all, massive phasing out of coal, lignite, and partly nuclear unfortunately, and then the energy amounts will be replaced mostly by renewables, solar and wind, and we talk about huge volumes.

And then to balance that out, for the flexibility, then gas would be the mid-term supply of flexibility, gas-fired power generation. Not to forget that when we, again, coming back to the taxonomy, gas is important, but nuclear is important to have in the taxonomy because out of the CO2-free power we have today, almost half is nuclear, so that will be needed as well. Regionally, where biomasses is available, unlike in the Finnish context, it comes largely as a side product.

Whether we talk about sawn goods or pulp, et cetera, that doesn't translate into other by-products, turns into energy to power and heat, and tree branches, stumps, etcetera are used in the typically in the district heating production. So, where it's totally applicable, absolutely. But in the big picture, the big really moving parts for Europe are renewables, gas, hydro, nuclear.

Bernhard Günther

Yeah, maybe then briefly on your first question around net debt, I can maybe provide some helpful guidance on the various moving parts in this. So, without giving a guidance on the net debt number. I think the basically the difficulty to predict net debt for year-end is that cash flow from operating activities in this one component, you have both an element we do know but we do not guide, which is the swings in the inventories and receivables and liabilities from the global commodities business, which, this quarter, were extraordinary and to some extend will have a swing back in following quarters, not just Q4 and the second element, of course, is the overall nature of the global commodities business, which on a quarter-by-quarter basis is not easy to forecast. Of course, Q4 normally is a stronger quarter than in a typical year Q2 and Q3 would be, but we have seen this year how fast this can change.

So, these are the moving parts. All the other component parts of the net debt equation or the waterfall you see on our page 20 in the presentation, they are pretty stable, predictable and don't move wildly between the quarters. Of course, if there would be further divestments closed in Q3, this of course might also influence the divestment number.

James Brand

Great, thank you very much.

Operator

Our next question comes from the line of Sam Arie of UBS. Please go ahead.

Sam Arie

Hi good morning, everybody and thanks as always for the presentation today and well done on the results. I'm kind of way down the order for questions. I mean, most of the topics I wanted to ask about have been covered, but perhaps I could just dig in for a little bit more detail on the situation with Uniper. And I think, if you forgive me, there's sort of three questions I want to ask there. As follows.

So, I think, number one, apart from the minor simplification benefits, which you've talked about before, the potential de-duplication of management, governance, reporting and so on. Is there any other benefit you can see in having a domination agreement or a buying out of the minorities at the moment?

And for example, is there any large-scale restructuring decisions that you think are interesting, but which would not be possible for you to implement under the current status quo? That's my first question.

The second one, maybe Bernhard, this one is a bit more for you, but given the possibility of co-investment now between Fortum and Uniper, sharing the CapEx cost on different projects, and intra-Group loans which you talked about today, is there actually any issue at this point around cash pooling between Fortum and Uniper? So, I suppose what I'm saying is, from a Fortum point of view, does the level of dividends from Uniper actually matter very much to you in your financial planning? I'm not asking for guidance on what the Uniper dividend would be, obviously, but just wondering whether it makes any difference to you now, what cash comes in from the Uniper dividend, or whether you could just balance your financial needs with tweaking the rate at which Uniper co-invests in certain projects or the rate at which they pay back intercompany loans and so on?

And then my third question is, if there's no significant additional benefit for now, and if cash building isn't an issue, I'm just wondering if you've considered extending the moratorium that you had on further action with Uniper, which expires at the end of this year, and if that that would be a way to provide the market with a bit more clarity about your plans?

Markus Rauramo

Okay, thanks, I think I can take the first and third question and let Bernhard take the second question. With regards to what potential benefits could there be? Well, we do have two listed companies when we cooperate, we do have to deal with two different processes and reconciliation in between. So, simplification sounds may be simple and easy, but there is a lot of potential on that front with not having to have double processes, but we can well manage like we are today in the de facto Group and people are making huge progress on the cooperation and on the one streams, which have been very successful.

Would we extend our previous statements that we have said? This is what we have said for the time being, so I wouldn't go beyond what we have said earlier and the information we gave today.

Bernhard Günther

So, on this whole aspect of, I think the gist of your question was, Sam, does Fortum need the Uniper dividend for whatever Fortum needs on a Group cash position, be it paying a dividend or what else. No, we are not dependant on this – short answer.

Sam Arie

Not dependent on it, but is it is an important factor for you, or is it basically now offset by these other ways that you have flexibility, co-investment and the intra-Group loans.

Bernhard Günther

In that context, it's not an important factor.

Sam Arie

Really interesting. Okay, well thank you so much, both of you, for that commentary. It's really helpful.

Operator

Our next question comes from the line of Louis Boujard of Oddo BHF. Please go ahead.

Louis Boujard

Yes, thank you very much for taking my question. Good morning, everyone. The first question on the generation business, maybe. I understand that in the Q3 part of the very good performance that were above expectation, anyway, is related also to better volumes, notably in on top of hydro and the capacity to catch the short-term prices into the spot market. My question would be the following: notably, on nuclear for next year, for instance, what would be the level of maintenance programme? Is it already completely fixed, or do you have latitude eventually, depending on the market evolutions? And would it be higher in terms of potential outage than in 2021, or eventually lower or relatively aligned, but we can see if you have capacity to eventually keep on taking advantage of spot prices next year.

The second question would be out of curiosity regarding the accounting judgement and notably for the fact that Uniper cannot apply hedging on the position that they have. In my understanding, part of the reasons for it is because of the fact that eventually the hedge might not be perfect. Is it indeed the reason for that? And my question also would be, if you were to make a full integration of Uniper, et cetera, would it mean that you might eventually have leeway to have more capacity to apply hedge or continue on these elements going forward?

And one last question regarding Consumer Solutions. Notably, regarding the evolution that is a bit under pressure for this quarter. Obviously, we understand that secured market condition is not the best ones for this kind of assets. How do you see it evolving in the future, considering the current volatility in the market and relatively high market prices? I'm not going to ask regarding your thinking and the position of this asset, because you clearly stated that it is still open for discussion at this point.

Markus Rauramo

I can start with a couple of questions. With regards to the nuclear maintenance, if we look at the long term, then we need to do maintenance and lifetime extension investments into the nuclear, and the annual variation depends then on what kind of outages you have. I think our IR is happy to give the details that are announced, and they are published a couple of years ahead in the Nord Pool. What kind of outage dates we have this year and next year. So, maybe Ingela and team can give colour on that then later.

With regards to the pressure on the consumer business, I think it's kind of secular pressure right now is the high-end volatile prices, so that's something that has not happened to this extent for some time. The other pressures, high competition, new type of entrants, new type of products. This is something we are of course familiar with, and we have been very successful, and we are well positioned to do good business in this area.

But with our value-added products with the efficiencies we have gained with Hafslund, so I would say we are in a very strong position in the Consumer Solution business and the volatility we announced was something unprecedented and I know that our customer service centres have been taking a lot of calls from concerned customers asking what happens to their invoices and so on. And also, the Corona had an impact on how we actually sell new contracts. So, the type of shopping mall sales and face on sales on streets and so on. These were more difficult in Corona times, and I assume that that will eventually normalise.

And I could let Bernhard answer this, but I will just shortly comment on the hedge accounting that what we tried to do, and I'll let you take the technical part, but we tried to exactly give the visibility through the adjusted or comparable EBIT number, so comparable operating profit numbers. So, you can do a lot of work on hedge accounting. But if you can give the same visibility with a comparable number, then I think that the whole point is to give a number that reflects the underlying business and that's what we do there.

Do you want to talk more about hedge accounting? Let's ask back, do you have further questions regarding this hedge accounting?

Louis Boujard

No, no, it's okay.

Operator

Our next question comes from Deepa Venkateswaran of Bernstein. Please go ahead.

Deepa Venkateswaran

Thank you. I had two questions. One on gas and basically the green taxonomy. So, I think you mentioned transitional gas. Would you mind clarifying what you mean by transitional gas? Is that just new gas plants that are hydrogen ready? Or are you in that definition including all existing gas assets and so on?

And a second question for Bernard Sorry, again, to come back to the CFO and net debt. I mean, clearly in the way the margin is being accounted for, the margin payments, et cetera, is not forming part of net debt, but all the optimization activities like the working capital, et cetera, is benefiting the net debt definition. So I just want to clarify your cash flow from operations in this quarter has increased by 2.3 billion, out of which the EBITDA was close to 600, and then you had working capital. What's the remainder? And presumably, all of this should unwind, right? The cash conversion should be closer to normal. So could you just clarify that? Thank you.

Markus Rauramo

I can start with the gas taxonomy. It's a really good question. Our point on the gas in transitional gas inclusion in taxonomy is that we need flexible gas plants that are clean gas ready and that run low running hours annually, but they provide the security of supply, and they provide the flexibility to match with the massive volumes of renewables that must come into the market. The systems cannot take the required amount of renewables if there isn't something that flexes. That's the point there.

Deepa Venkateswaran

It's more the H2-ready plants, or something? Because today's gas plants aren't really clean, so it has to be some new thing. Or, I suppose, in Germany CCS is impossible. So does this by definition apply to new plants?

Markus Rauramo

Yes, my key point is about the new plants that are required for the transition to be possible. And of course, we are in continuous dialogue with the OEMs who are developing the turbines and engines and solutions for increasing the clean gas. But also, we know realistically that we are some way until we get there. So, this is a really big question for the society and for the politics. How to build this pathway? But I'm, honestly, I'm really concerned that if we make a taxonomy that becomes very binary and exclude the elements that are required to make the transition happen, we're not going to see the transition that we want.

Deepa Venkateswaran

Okay, thank you yeah.

Bernhard Günther

So, Deepa, to your question on net debt. And yes, operating cash flow of working capital. Of course, you're right, the receivables and payables from margins are not part of it. In deb equation, the cash flow, it also— And those parts of the cash flow which are driven by operational measures are part of this. So, we think it is fair to represent it, but this is exactly why we added or attached the caveat that the cash flow for the third quarter is exceptionally strong because, also, business levers have been pulled to improve cash generation and liquidity and therefore the extrapolation is not that easy. So, if you look at our table on slide number 13, or the even more comprehensive material in the interim report, and compare 21 versus 20 and especially the two third-quarters, you get quite a good feel for how much variability there can be out of these specific measures we have taken.

Deepa Venkateswaran

Okay, all right. Thank you.

Operator

Before we go to the next question, may I remind everyone that if you wish to ask a question, please press 01 on your telephone keypad.

Our next question comes from the line of Lueder Schumacher of Société Générale. Please go ahead.

Lueder Schumacher

Hi, just a very quick follow up on my side. Disposals, you haven't spoken about this yet. Are disposals still to come yet? You had so many book gains flowing in in Q3. When can we look forward to the next lot of book gains? I would have though Customer Solutions is not the best operating environment at the moment, so this might be a slightly longer-term issue, but where are we on the remaining district heating assets? Are the sale processes well underway? And maybe can you give us any idea about the timeline there?

Markus Rauramo

These are not by definition— These are strategic reviews and not divestment processes. So, we are assessing what would be the best strategic future for these assets, whether its Consumer Solutions or our Polish district heating business. And that's exactly what we are doing.

With regards to the philosophy on why certain assets are under review. If you take Järvenpää, Joensuu, our Baltic businesses, Stockholm Exergi, these were businesses where we had invested heavily decarbonised the assets, optimised them and we had done the majority of the work we can do, and then we started to think that could there be a different kind of ownership structure or future for these assets. We have many assets which have potential to be decarbonized and there's a lot of work to do. A lot of work we can do. Add value, optimise. So I would just categorise assets into two different buckets.

Lueder Schumacher

Okay, thank you.

Operator

And there are no further telephone questions at this time. Please go ahead, speakers.

Ingela Ulfves

Thank you so much, Moderator, and thank you everyone for your questions. We do have some questions on the chat, but in order to be conscious of time because we are now already 1.5 hours into this, then what I suggest is that those questions if you can redirect to us in the IR team, then we will come back to you on those. Most of them have been touched upon already. So, in that sense, we are then happy to continue the discussion with you directly.

But at this point then, we would thank everyone for your participation here today and on behalf of Fortum wish you all a very nice rest of the day. Thank you.

Markus Rauramo

Thank you very much. Have a safe and good day.