

1/2023



Interim report

Security of supply at a high level in a difficult market

January–April 2023 in brief

- The group's net sales amounted to EUR 99.5 million and increased by 0.6% compared to the corresponding period last year.
- The group's operating profit was EUR 36.7 million and increased by 12.3% compared to the corresponding period last year. Savon Voima's share of the associated companies' result supported the growth in operating profit.
- The volume of electricity distributed decreased by 11.5% from the year before to 723 GWh. Heat sales decreased by 4.0% to 535 GWh. The decrease in the volumes was due to customers' energy saving measures and a warm beginning of the year compared to the reference period.
- Power generation decreased by 10.3% to 210 GWh. The volume decreased due to the mild winter and low electricity prices.
- The security of supply for electricity distribution was excellent in January–April, as the service rate was 99.99%.
- The group's investments during the review period were EUR 14.7 million.
- With the City of Varkaus, Savon Voima started a survey of the ownership arrangement options of Varkauden Aluelämpö Oy.
- Savon Voima received the Finnish Institute of Occupational Health's I-level recognition for its high level of occupational safety. After the reporting period, the group reached the 1,000-day milestone in its zero accidents target.

Estimate for the end of the year

- The group's investments for the entire year are anticipated to be approximately EUR 62 million. Of the investments, EUR 37 million will be aimed at a weatherproof electric power network.
- Due to the tense situation in the domestic fuel market, there may be issues related to the availability of biomass fractions in particular, which may have a negative impact on the profitability of heat production in particular.
- We expect the instability and unpredictability of the energy market to continue.
- Savon Voima Group's result for 2023 is estimated to be at the level of the previous year or slightly lower, but the forecast includes significant uncertainty factors due to the challenging market conditions and regulation risks.

Development of Savon Voima in numbers

GROUP KEY FIGURES	1–4/2023	1–4/2022	1–12/2022
Net sales, EUR 1,000	99,453	98,816	231,713
Operating profit, %	36.9%	33.1%	21.2%
Equity ratio, %	42.9%	39.9%	41.9%
Liquidity, Qr	1.4	1.7	1.1
Investments, EUR 1,000	14.7	12.7	56.6
Return on investment, %	5.2%	4.9%	5.0%
Average personnel	206	202	209
ENERGY VOLUMES (GWh)	1–4/2023	1–4/2022	1–12/2022
Sale of heat and steam	535	558	1,136
Electricity distribution	723	816	1,764
Electricity production, production shares	62	69	169
Electricity production, own plants	148	166	350

CEO's review

The energy system in the broad sense has shown its flexibility during this past winter. Replacing Russian fossil energy fractions with other forms of energy in different industries significantly curbed the price shock caused by demand. Also in Finland, households and companies learned the benefits of demand response solutions, which resulted in significant overall electricity savings. The main concern in the future relates to ex post regulation, which is only just starting. Do we still believe in market-based price formation and a technology-neutral operating environment, i.e. the functioning of a clean energy system? Finland emerged from the energy crisis better than other European countries precisely because of the conversion to an emission-free energy industry. Of course, new concerns about, for example, the sufficiency of power as weather dependence increases in power production, reared their head.

The availability of Savon Voima's power production and networks has been excellent. Occupational safety also remained at an excellent level. After the reporting period, we reached the milestone of 1,000 continuous working days without accidents, and we are already aiming for the 1,000 days.

The investments were directed at the implementation of the carbon neutrality programme, weatherproofness in the electricity network, flexibility in the heating and electricity system and events supporting customer change. We continued to develop the sustainability programme, which was reflected, for example, in the planting of endangered brown trout and financial support for the establishment of a professorship in technology at the University of Eastern Finland. With the aim set by the owner municipalities, the expansion into water management services progressed and negotiations with the City of Varkaus on the ownership changes of Varkauden Aluelämpö Oy started.

Operating environment

The wholesale electricity price in Finland was EUR 73.34 per MWh in January–April, which is 17% lower than a year ago. The average system price was EUR 83.39 per MWh, which was 28% lower than in the corresponding period in 2022. Prices fell from the previous year due to lower consumption and increased production. The scarcity of gas supply in Europe has eased, and the average price of gas in January–April was only half the price of the year before. The average price of emission allowances in January–April was EUR 90.70 per tonne of carbon dioxide, which was 10% higher than last year.

Sustainability

Our ISO 27001:2013 information security management system certificate and ISO 14001:2015 environment management model certificate were audited externally for the first time. The certificates were granted to us last year, and they cover the district heating, power generation and electricity distribution network business operations of Savon Voima Group. In the audits, the operations and continuous development were found to comply with the requirements of the certificates.

At the end of March, with the help of our donation, brown trout spawn boxes were planted in the River Kuvansinjoki by Saimaan lohikalojen ystävät ry. The aim of the plantations is to start the natural reproduction of brown trout by creating a stock of trout imprinted on the planting site that will eventually return to the same area to reproduce spontaneously.

Savon Voima decided to donate, together with three other companies from North Savo, a total of EUR 600,000 for the establishment of a professorship in computational engineering at the University of Eastern Finland. The donation supports the training in the field of technology (MSE) launched at the University of Eastern Finland and ensures the realisation of the professorship for the next five years.

District heat and power generation

Of the energy sources used for power generation and heat production, 66.3% (67.3%) were renewable in the January–April period. The increased demand for domestic biofuels caused by the war in Ukraine has led to a higher-than-planned use of peat. Peat was used to ensure the security of supply of district heating, especially during the first two months of the year. In the first third of the year, peat has been used approximately 10 per cent more than budgeted. Correspondingly, the amount of forest processed chips has been below what was budgeted. The fuels used in the production of district heat and power generation are domestic, with the exception of light fuel oil and liquefied petroleum gas. The degree of domestic origin was 98.8 per cent.

By the end of April 2023, the carbon dioxide emissions from the production of district heat and power generation included in the emissions trading scheme amounted to 68,865 tonnes of carbon dioxide (82,600 in the previous year).

District heat sales in January–April were 7.0% lower than budgeted. District heating sales were affected, with the exception of March, by the warm early part of the year. Total heat sales amounted to 535 GWh, which is 4.0% lower than in the same period last year.

The rapidly increased demand for domestic fuels, started by the war in Ukraine, and the increased harvesting and logistics costs further raised the prices of domestic fuels. However, fuel availability was good during the review period.

The availability of power plants and heating plants was good at the beginning of the year, which is reflected in the low amount of oil used during the heating season. In the first half of the year, oil consumption was 37% lower than budgeted.

In February, the Ministry of Economic Affairs and Employment granted approximately EUR 4 million to support the investment in a heat storage and heat pump plant at Savon Voima's Joensuu CHP power plant. The investment will enable the utilisation of waste heat from the power plant

in the Joensuu district heating network during winter and the utilisation of the heat from the River Iiksenjoki during summer. This support is part of the project support granted by the Ministry of Economic Affairs and Employment to 14 clean energy projects in accordance with Finland's Recovery and Resilience Plan. The projects are funded by the EU Recovery and Resilience Facility (RRF).

The efficiency of district heating production and distribution will be improved with a project launched in Iisalmi with the aim of using data and artificial intelligence to optimise the temperature of district heating water in accordance with customer needs and consumption in a timely manner. The system is in the testing phase, and it is planned to be put into production in autumn 2023.

The volume of electricity produced in January–April was 210 GWh, which was 10.3% less than in the corresponding period last year. 32 GWh of hydroelectric power were produced, which was 5.9% more than in the same period last year. The water situation was better than in the previous year. Combined heat and power generation (CHP) was 116 GWh, which was 14.3% lower than in 2022 due to low prices and the mild winter. The production of generation shares of electricity was 62 GWh, which was 9.5 per cent less than in the corresponding period last year. The production of nuclear power increased by more than 50% thanks to the production of Olkiluoto 3. The decrease in production shares was due to the disappearance of Vaskiluoto 2's production from Savon Voima's production shares at the end of 2022.

The City of Varkaus launched a survey on the ownership arrangements of Varkauden Aluelämpö Oy, in which the city investigates the exchange of the entire share capital of Varkauden Aluelämpö Oy for the shares of Savon Energia-holding Oy. In addition, the opportunities for partial share transaction are investigated. Savon Voima Oyj owns 19.9 per cent of Varkauden Aluelämpö Oy. The city's goal is for the investigation to be completed by June 2023. With regard to the City of Varkaus, the City Council will make the final decision on the possible arrangements.

Electricity distribution network business

In the early part of the year, the amount of electricity distributed was in line with the budget. A total of 723 GWh was distributed, which was 11.5 per cent less than in the previous year (816 GWh). The decrease in distribution volumes during the review period is due to customers' electricity saving measures due to the high price of electricity and the warm early part of the year.

The security of supply for electricity distribution was excellent in January–April, as the service rate was 99.99%. In January–April, the energy weighted average fault reset time of the electricity network was 9 minutes per customer (34 minutes the previous year). The number of permanent defects in the early part of the year remained low; it was only half the average number of defects in the corresponding monitoring periods in the previous six years. The preventive measures taken in the early part of the year to anticipate the snow load defects typical of the time and effective fault management helped to achieve an excellent result.

The Energy Authority has published its first guidelines for development in the next regulatory period. In addition to Savon Voima Verkko and other network companies, the Energy Authority wants to consult other stakeholders more widely about the development of monitoring methods, and the final guidelines will therefore not be known until this autumn. Savon Voima Verkko will continue its active development work and assess the impact of the changes in the control methods on operations during the rest of the year.

Network work to improve the security of supply of the electric power network will continue during the current year. The most significant construction projects for 2023 are the renovations in Sukeva and Alapitkä and their surroundings as well as in the Valkeiskylä area in Vieremä. The cabling between Karttula and Pihkainmäki and the cabling around the Kinnari substation in Varkaus will continue this year. A 110 kV substation will be renovated in Pielavesi during the current year.

The connection of small-scale solar power production to the electricity grid continued also throughout the winter season 2022–2023. We received orders for a total of six medium-voltage connections for grid energy storage in early 2023.

By the end of April, solar power systems connected to the electricity grid totalled 366 (118), while the systems connected in the previous year totalled 976. The average output of the connected systems totalled 11.2 kWh.

Personnel

At the end of April, the number of employees was 213 (207) and the number of people employed averaged 206 (202) in January–April. In January–April, eight people started as new permanent employees, while in the same period last year, seven people started as new permanent employees. There were no accidents resulting in at least one day's absence in January–April. The target of 'zero accidents in 1,000 days' reached a new record in April: 988 working days without any accidents.

In the occupational safety forum of the Finnish Institute of Occupational Health, Savon Voima was awarded the first level of recognition for our occupational safety. In April, the People Power personnel survey was carried out, in which Savon Voima's index result rose from last year (5.8 points), reaching the level of AA (good), and we achieved the Finland's Most Inspiring Workplaces recognition. The Kipinä campaign to find summer trainees was open as usual in January–February, and 21 trainees were hired for the summer season. Our annual target is for the number of summer trainees to be approximately 10 per cent of the number of permanent staff.

Estimate for the end of the year

Savon Voima's business operations are weather-dependent. The net sales and results of the power generation business are also strongly affected by, for example, price fluctuations in the wholesale electricity market and the development of emission rights and fuel prices.

The economic outlook is characterised by exceptional uncertainty. The Finnish economy has already entered a technical recession, inflation is expected to fall slowly, and short-term interest rates are expected to continue to rise. In addition to economic factors, the price and availability of energy as well as the development of the global market together with the tense geopolitical situation may suddenly affect the economic outlook. Households' purchasing power and companies' liquidity are expected to tighten as a result of the negative development.

Competition has increased in the domestic fuel market and prices have risen, especially for biomass fractions. The upward pressure on biomass fuel prices is also caused by rising prices for other fuels and the issues with the availability of fuels. The price of emission rights has also remained at a record high. During the rest of the year, the increased costs may weaken the profitability of the district heat business. Risks related to fuel availability and rising fuel prices will be minimised through actions such as investments in production technology and long-term cooperation agreements.

As a result of the mild winter, windy weather and start of regular power generation at the Olkiluoto 3 nuclear power plant, the market prices of electricity have decreased and the price fluctuation in the market has levelled off compared to 2022. However, in our view, significant uncertainties remain in the energy market, causing market volatility and unpredictability. The prices of energy commodities are exceptionally sensitive to both positive and negative changes, causing very large fluctuations in market prices. Price hedges are used to manage the impact of electricity

price fluctuations in accordance with the principles of long-term risk management.

The unpredictability of political and official regulation also creates uncertainty for the energy sector, increasing the risk level of the sector. For example, the temporary profit tax act for the electricity and fossil fuels sector (windfall tax) will significantly increase the group's tax burden in the tax year 2023. In addition, the debate on the taxation of the energy use of wood, for example, creates uncertainty for the future prospects of the sector. The Energy Authority is currently developing control methods to be applied to the electricity distribution network business from 2024 onwards. The changes in control methods may further weaken the profitability of the electricity network business and have a negative effect on the availability and terms of financing.

Risks to the security of electricity supply will be reduced by investing significantly in the prevention of damage caused by weather conditions and building a weather-proof network. The construction of the electricity network will continue as planned, despite regulatory uncertainties.

Based on the available information, the Savon Voima Group's operating profit, excluding non-recurring items for 2023, is expected to be at the 2022 level or slightly lower. However, due to factors such as the challenging market conditions and the unpredictability of political regulation, the estimate includes significant uncertain elements.

The interim report financial information is unaudited.

Siilinjärvi, May 2023

Savon Voima Oyj, Board of Directors

Consolidated earnings and balance sheet



NET SALES OF BUSINESSES, non-consolidated (EUR 1,000)	1-4/2023	1-4/2022	1-12/2022
Electricity distribution network business	38,129	40,622	99,482
District heating	43,887	40,547	82,902
Power generation	17,655	18,075	50,268
Other business functions	17,704	1,238	3,684
Consolidated entries and eliminations	-17,922	-1,666	-4,623
Savon Voima Group total	99,453	98,816	231,713

OPERATING PROFIT FROM BUSINESSES, non-consolidated (EUR 1,000)	1-4/2023	1-4/2022	1-12/2022
Electricity distribution network business	19,512	20,193	36,797
District heating	12,648	13,414	7,926
Power generation	7,153	7,308	19,018
Other business functions	225	115	294
Consolidated entries and eliminations	-2,859	-8,367	-14,999
Savon Voima Group total	36,679	32,663	49,036

CONSOLIDATED INCOME STATEMENT	1-4/2023	1-4/2022	1-12/2022
NET SALES	99,453	98,816	231,713
Share of associated companies' result	3,669	-1,787	4,545
Other operating income	1,428	353	1,074
Costs	-37,861	-34,487	-88,171
Depreciations	-22,163	-22,088	-70,378
Other operating expenses	-7,847	-8,144	-29,746
OPERATING PROFIT	36,679	32,663	49,036
Financial income and expenses	-811	1,401	1,743
Profit before non-recurring items, appropriations and taxes	35,869	34,064	50,779
Non-recurring items	0	0	-213
Profit before appropriations and taxes	35,869	34,064	50,567
Income tax	-7,395	-8,114	-12,762
PROFIT FOR THE FINANCIAL YEAR	28,469	25,950	37,805

CONSOLIDATED BALANCE SHEET, ASSETS (€1,000)	30 April 2023	30 April 2022	31 Dec. 2022
NON-CURRENT ASSETS			
Intangible assets	386,600	401,293	391,275
Tangible assets	600,819	597,386	603,694
Investments	55,825	43,283	52,096
CURRENT ASSETS			
Inventories	7,604	6,385	8,661
Financial assets	113,407	132,762	93,013
Total	1,164,255	1,181,109	1,148,740

CONSOLIDATED BALANCE SHEET, LIABILITIES (€1,000)	30 April 2023	30 April 2022	31 Dec. 2022
CAPITAL AND RESERVES			
Share capital	969	969	969
Other equity	338,379	311,401	323,926
Minority share	35	0	30
Statutory provisions	4,213	4,516	1,313
LIABILITIES			
Connection fees	155,713	154,851	155,377
Long-term	510,000	560,000	510,000
Deferred tax liabilities	71,693	71,015	72,221
Short-term	83,254	78,357	84,905
Total	1,164,255	1,181,109	1,148,740

The Savon Voima Group comprises the parent company Savon Voima Oyj and its subsidiaries Savon Voima Verkko Oy and Itä-Suomen Biomassa Oy. Of the latter, Savon Voima Oyj owns 70%. The Group includes Kymppivoima Oy, Kymppivoima Hankinta Oy and Väre Oy as affiliated companies.