

Customer story FORTUM



KEY FACTS

Company Name

Fortum
www.fortum.com

About company

Fortum is a leading energy company in the Nordic countries and the other parts of the Baltic Rim. Fortum's activities cover the generation, distribution and sale of electricity and heat, the operation and maintenance of power plants as well as energy-related services. The main products are electricity, heat and steam. Fortum's competitiveness in the power and heat business is based on a pan-Nordic concept. It is characterised by a high level of operational efficiency and a broad customer base.

Industry

Energy, heat

Turnover

11,7 billion EUR (2004)

Operating profit

1,9 billion EUR (2004)

Operations

Scandinavia, Baltic countries,
Poland

**"CORPORATE ACQUISITIONS
SUPPORT THE GROWTH
TARGETS OF FORTUM'S HEAT
BUSINESS.
WE USE INVEST FOR EXCEL FOR
OUR VALUATIONS"**

Background

Fortum Heat provides district heating, steam for industrial processes, electricity and industrial cooling for its customers in the Nordic countries, the Baltic countries and Poland.

Fortum Heat business unit has an active growth strategy prioritising the Baltic countries and Poland. Fortum Termost is one of the leading heat companies in Estonia. Termost has more than 50 corporate customers and the company's business of heat supplying for small and medium-sized industrial companies is growing.

Fortum Heat is also an active player in the heat market in Poland. Fortum DZT S.A. is a district heating company that produces and distributes heat to 22 cities in South-Western and Central Poland. In December 2004 Fortum acquired another district heating company, Fortum Częstochowa S.A. that sells 780 GWh of heat per year.

Expansion has also resulted in ownership of AB Fortum Värme in Sweden, partnered by the City of Stockholm with a 50% financial stake. Fortum Värme delivers district heating and cooling, power and gas to industries and private customers in Sweden.



Kokkola power plant.
Photo: Fortum

Instead of "personal" applications, investment calculations are now made in a uniform way

Mr Matti Savolainen, Development Manager, Fortum Heat: *We looked for a tool to improve the way we make our own calculations. We have reviewed several solutions including Invest for Excel. It suited our needs best and was reasonably priced. Our own various Excel templates were useful as well, but they would have needed tuning. We have decided to implement Invest for Excel.*

Implementation

Calculations are made for determining the value of power and heat plants, district heating networks and energy companies. Also reinvestments need detailed financial studies for various economic purposes. Invest for Excel served well both purposes.

Implementation of the software was smooth and free of problems. Invest for Excel was first used by project analysts, who made profitability calculations for persons in charge of investment projects. Then, the investment team verifies the calculations and provides templates for the project managers, who develop the calculations further and also use them for volatility estimations. The same tool added value in providing uniform concept of calculation at several stages of development.

Training

MS: *First we had training sessions with Datapartner. Then we organised our internal training sessions. Use of the software has been fairly easy, especially for those familiar with Excel, and others have picked it up quickly as well. The user manuals can be accessed in electronic form if needed. I have not resorted to the helpline much, since the few questions I had, have been resolved quickly by e-mail.*

Effects

The decision-makers find it easier to estimate calculations based on a uniform model.

MS: *Invest for Excel saves time compared to the previous complex Excel constructions. The calculations are more reliable now, since only minimal tuning is required. This has increased confidence in our calculations.*

Datapartner works towards satisfaction of the customers. Mr Savolainen and other users in Fortum have expressed some requirements that were implemented in the software.

Corporate acquisitions support growth targets in Poland

Director **Timo Jokinen** at Fortum Heat uses the software together with Polish colleagues. Mr Jokinen considers it a great advantage that the same media is used for all calculations.

Investment often means corporate acquisition. The calculations for acquisitions, on a general level, are made with Invest for Excel.



Mr Timo Jokinen at Fortum HQ in Espoo.
Photo: Ari-Harry Jansson.

TJ: *Invest for Excel was introduced very conveniently at Fortum Heat when we were acquiring a Polish state-owned district heating company of 600 people operating in Częstochowa and in five smaller cities. The turnover of the company amounts to about 22 million euro. Financial arrangements were one of the key points in the calculations.*

Privatisation involves commitment to transform investment into modernisation. This is not necessarily based on state-of-the-art technology if this cannot be utilised to full capacity. For example, additional pumps may not be needed after all but their acquisition still results in an increase in the maintenance costs. The increase in value must be higher than the incremental costs, even if the new technology is financed by the World Bank, for instance.

Profitability calculations for corporate acquisitions must take into account the change in the operating practices when a new owner takes charge.

Controllability and profitability of the systems

Controllability and profitability of the investment remain the key indicators in its evaluation. However, all investments exceeding 100 000 Euro that are calculated with Invest for Excel take into account occupational safety of the workers and environmental effects.

Controllability means having real-time information about the state of the process. The control system uses key performance indicators on every step of the process - starting from method of production & delivery, heat loss to financing and invoicing.

Profitability can be increased by improving the input-output ratio, for example. The aim is to reduce the consumption of power by a technical improvement or to achieve savings in the operating and maintenance costs. Through marginal calculations, Invest for Excel provides information whether profitability increases or not.

One of the investments types calculated with Invest for Excel is the expansion of the district heating network by adding new units, i.e. villages and towns.

All major investments and valuations at Fortum Heat have been put through Invest for Excel since 2003 up till now.

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