

Conference Title: Fortum OYJ Interim Report for January-June

Conference ID: 1577556

Date: July 20, 2017

Man 1: Hello and welcome to Fortum's Half Year Financial Report Web cast. We will be Webcasting today here from Espoo. And we have our CEO, Pekka Lundmark and our CFO, Markus Rauramo who will be presenting the results for you. We will then after the presentation have several minutes then or enough time for questions both from the audience and from the lines. But welcome and I hand over now to Pekka.

Pekka Lundmark: Thank you very much Måns, investors', ladies for gentlemen thank you for joining us as today in our Q2 Web cast and Q&A. I would summarize the quarter by saying that there are several positive and then a couple of not so positive items in the quarter which I will go through. (inaudible) slightly below our expectations after pretty good Q&A in tough market conditions though. After a good Q1 we were slightly below the previous year in comparable operating profit. We were of course ahead of last year in EBITDA but we were honestly saying we were hoping to be slightly above previous year also in comparable operating profit but the biggest difference in our own expectations was the hydro volume in the quarter which was 14% below last year's level. Of course Q2 is also seasonally weak and this year was no expect – this year was no exception.

Before I talk about the result I will briefly comment the overall strategic situation that we have if I only get this thing to work. Now it works thank you. And I want to start from the perhaps the most important event in the quarter from strategic point of view. And that's the Hafslund restructuring. It is proceeding well. We have now approval from Oslo city council which is of course a big milestone in the process. It was a unanimous decision of support. We also have all the regulatory approvals that are needed. And exactly the same way as we said already a quarter ago we expect to close the deal during the third quarter.

This is a truly important milestone in our strategy figures that will add to us once then consolidate the (DTR) numbers on 2016 pro forma basis about €950 million of new sales kind of about €130 million EBITDA. So this is a very important deal. And this marks a big milestone in our strategy implementation because now making this deal and then Ekokem, and (Duan) and the ongoing organic investment in solar and wind the Polish waste energy it means that out of the 9 billion to ten billion that we received in the divestment out of that we will now have committed about 20%. And the interesting thing is as I also say in the report that we will have once this is in the credit and the solar and wind are in operation we will have replaced close to all of the free cash flow that we lost in the distribution divestment.

We will have replaced approximately at least our rough numbers 1/2 of the EBITDA but almost the entire free cash flow. And the reason of course being that the new business is that we will have instead of the distribution business are in relative terms less CAPEX intensive so the free cash flow generation in those businesses is stronger. And this is very important because as you remember already from last year's capital markets as we have explained we are putting a very high priority on the cash generation when we are deciding the different targets for the capital reallocation. So in general I would say that we are pretty good way in our strategy implementation but of course the fact being that honestly it was an important milestone we of course continue to keep our eyes open remembering those three criteria that we have communicated and looking for consolidation deals that would be close to our home market within our existing core competencies and that would include already existing cash flow. And this way we want to maximize our cash flow in order to be able to be a competitive player on the dividend market and at the same time be able to enough - invest enough money into the future energy system of the 2020s.

So that was a very quick strategy implementation recap before then going into the details of the second quarter results, also prices increased. They are still on low levels. I said we are slightly behind last year in comparable operating profit even though we are 5% ahead of EBITDA. Biggest reason being generation which was €20 million behind at the same time the clear

highlight of the quarter again was the Russian performance €53 million of comparable operating profit compared to €33 million last year. This was our second quarter in a row with extremely good Russian performance. And also the outlook for that business continues to be fairly promising.

Important to note that earnings per share is strongly effected or impacted by the Swedish income tax booking of €123 million which has a negative impact of 14 cents. This is not cash flow affecting because these taxes were paid already earlier and Markus will get more into detail – details about the tax case. There is also some positive development on tax then but we wanted to be more on the conservative side now in the reporting. So that's why we are taking this charge €123 million now in this Q2.

Hafslund I already mentioned, just to confirm that the fixed cost reduction program will - continues according to the plan. And we will reach the €100 million that we are targeting. At the same time as you may have noted the costs are actually very solid in the other segment is €10 million lower than it was a year ago. This is intentional.

That segment includes many other things then the group administration which is not growing in cost but it includes extremely important investment in the future. It includes R&D. It includes increasing investment in new ventures in digital, consumer services, in smart homes, electric car charging, new fuels for district heating and new ventures in demand response all being important investments for the future. That segment also includes wind and solar. And this is very important to remember to put things into perspective and understand why the number is what it is. We have currently 69.5 megawatts wind in operation but we are currently building constructing 212.5 megawatts. We have currently 85 megawatts of solar in operation. We are constructing 100 megawatts. And this is why also we note in the reports that these are potential investments that are expected to then start generating corresponding returns most of them from 2018 onwards.

This is really important to understand that other segments it's a collection of many things and there is a bit of apples and oranges in the same basket.

Market conditions in the second quarter we have a 2% increase in electricity consumption in the Nordic region in Q1 but the first half of the year it's roughly on the same level as the year before. Prices do look a little bit better. They are still on the low level, system spot price, €27.4 for the quarter up from €23.9 last year. Finnish area price 30.9 and then the Swedish price is area three in Sweden €28.52 higher than last year.

The CO2 price is continuing to be on a very low level. It's only €5 per ton. The (Air Force) (58) Commission which are now in the try part in negotiations to put the renewal of the APS system into legislation by the end of the year are proceeding quite in quite a promising manner. And there is now a good case for expecting that the APS system will be strengthened which would then hopefully start supporting the CO2 price in the years to come. In Russia electricity consumption was higher in Q2 than a year ago because of cold weather. And prices when it comes to spot prices they were fairly stable in our regions in Russia.

Then when we look at the (borders) it's worse. And this goes then back to the hydro production issue. As you remember we actually have now a full year behind us. When you look at this curve you can see the dotted line which is the average the reference level. We have now the full year behind us where the actual first in 2016 which is the dark green curve and then 2017 which is the brown or orange curve are behind the reference level. Throughout the second quarter with the exception of the very beginning and the very end of the quarter the reservoirs were on a low level. We have now a last 12-month production of 18.6 terawatt hours of hydro for the last – well for the last 12 months. And our normal average is 21.5. So it's 3 terawatt hours less production to our hydro assets in the last four quarters than average. And this of course is very then – it's very visible in the results including the second quarter results.

Commodities, no dramatic changes perhaps worth noting is the coal price which increased quite a lot at the end of last year from very low levels and this of course one of the factors that have started to support the electricity price. If I then moved to the electricity price the system price has now for some time been tabled between 25 and 30, 27, and 28 or something like that, roughly on the same level as last year. The interesting thing is that in the last couple of months we have seen an increase in the forward prices for the rest of the year and also some increase for 2018 and 2019. Markus will comment our hedges but this is one reason behind the positive development in that hedge is that we are able to report.

Price once again I already commented but quarter year over year second quarter year over year is plus 16% spot price. And our achieved price which is then on a combination of the spot price hedges and area prices was €30 per megawatt hour slightly down from €30.5 a year ago. In Russia our achieved price for the quarter was up 19% in euro terms – – quite good development, €27 per megawatt hour. And that of course includes the capacity prices. And then the spot prices in Russian ruble they were unchanged as I already earlier commented.

I already discussed most of the items in P&L so EBITDA up 5%, comparable operating profit slightly down and then earnings per share affected €14 since - by the tax booking. Taking that tax booking away we are roughly on the same level in earnings per share as we were last year. And then of course in Q1 we were on a pretty good level. So overall we are looking okay if we take that tax booking away. But again I'm now repeating myself but prices are still on such a low level that we cannot be happy with this level of general profitability. But against market conditions have prevailed we are fairly satisfied with our performance and earnings level.

But then of course very important for the coming quarters will be the integration of Hafslund so that we get the additional EBITDA profit and APS effect now into the numbers of the coming quarters including also the synergies that are expected to be in that business. Then quick comments for each business I start from generation, already mentioned that achieved price was

€30 compared to €30.5 last year. Hydro production for the quarter was 4.9 terawatt hours. That's down 14% from last year's 5.7. This is the reason why the operating profit was lower.

Nordic power sales which is an item that is actually driving the result was €318 million versus €325. This is important to note because you – as you can see here sales the top line is up from €384 to €402. But Nordic power sales was slightly down from €325 to €318. Nordic hydro reservoirs at the end of the quarter they were still slightly 2 terawatt hours below the level year ago. What was positive in this quarter of course was excellent nuclear availability despite the fact that those ((inaudible)) are some – one was permanently shut down a couple of weeks earlier than was originally planned but in addition to that or besides that the general nuclear availability in the quarter was good. And actually as you saw from the numbers nuclear production was higher in the quarter than a year ago.

City Solutions benefited from colder weather. Heat sales were up from last year more significant to topline and also EBITDA was the integration of Eco cam. Ekokem was not in the numbers last year these were this year they – it was in the numbers that affected both topline and the fact that EBITDA grew from 20 to 37. But a seasonally extremely weak quarter as we have for the heat business unfortunately then comparable operating profit was very low. It was only €1 million against €5 million negative last year. Of course here all the EBITDA improvement that comes from Ekokem does not come through to the EBIT line because there has been also the additional depreciation coming from the purchase power – purchase price allocation.

Consumer Solutions is now reported as a separate unit comparable EBITDA and operating profits are both down from last year. This actually shows how important it is now to increase scale in this business and the fact that we now get Hafslund and grow from 1.3 million to 2.4 million consumers in the Nordic region is an extremely important milestone. This drop in the operating profits and EBITDA comes roughly equally from two sources. I emphasize drop just to give you a general idea.

One is that there is margin erosion in this business, high margin customers migrating not very fast but still as a general direction works contracts that typically have slightly lower margin. Competition is also very tough which is affecting margins. The flip side of this coin is that if you want to deal with this situation going forward it's very important that you invest in a productive development, in new business models, in new solutions in order to be able to defend the margin.

And that's why we have made a conscious decision to increase our development spending in new digital solutions, digital applications, smart homes, other things that we will offer to the consumers in the future in addition to the standard bulk electricity sales which in the current business model form will be under, most likely under increased margin pressure. So that's why we now get the double effect into the result increased development ending which is of course discretionary and it's intentional expected generate yourself in the future and then the ongoing margin erosion. From the third quarter onwards when we then expect to close the Hafslund deal we will then get of course a bigger scale into this business Hafslund market EBITDA in 2016 was 585 million for the region crowns.

And then finally Russia which as I already said was again the highlight of the quarter, good results for second quarter in a row. We have a comparable EBITDA of €88 million compared to €64 million last year comparable operating profit €53 versus €34. Here we still benefited from 4X despite the fact that in the past few weeks the Russian ruble has weakened it still benefited compared to last year from a stronger Russian ruble. That effect was about €4 million positive from the comparable operating profit line. But it's a small fraction of the overall improvement. And the real improvement comes from higher CFA payments, higher heat sales and also from more efficient operations in terms of lower fuel costs, lower fixed cost and improved bad debt corrections. So I would say that all the key operational aspects in - are really generating the result in our Russian operations. They have been developing to the right direction recently.

Then on the strategic investment side the main use of the quarter in Russia was the successful participation of our joint investment company with (Roushman) with 50-50 ownership, an investment funds that participated in Russian wind auctions and actually was quite successful. Won the right – I emphasize a right to build 1000 megawatts of wind in Russia over several years. It is the CFA capacity supply agreement based system. Our maximum commitment to the – this fund is €240 million or actually 50 million Russian ruble equity to be paid over several years. We are talking about roughly speaking five years of investment horizon through this fund. And in addition to the equity that both us and (Roushman) have put into this fund the aim is then to finance the rest of the build out with like local nonrecourse funding in Russia from local banks ruble, local ruble financing.

This is a CFA based system. So we – the fund will give paid for capacity. If you make a rough estimate and calculate that how much production this capacity will be expected to generate, et cetera, we are roughly looking at the tariff, comparable tariff of €115 to €135 per megawatt hour. And I we have a reason to be pleased with this result. This supports the long term ambition that we communicated at the Capital Market Day last year where we said that our long term addition is to build 500 megawatts of wind power for us in Russia.

One more number and then Markus will continue. I turn your attention to the fact that we now have €399 million so let's call it €400 million comparable EBITDA in Russia for the last 12 months so this €400 million is quite important milestone as well as a 12-month running - rolling EBITDA interest. Thank you for my part now. Markus will continue and then after that we are ready for questions.

Markus Rauramo: Thank you Pekka. I will summarize the second quarter just by this figure. In a nutshell I would say that City Solution and Russia division are now living up to their – starting to live up to their potential. So there are really realizing what the potential in these businesses can be. In consumer solutions the result drop is something we have expected. So margin pressure, tougher

competition, but then have been investing in the new product investment into the future we expect payback for this investment.

And then on the other investment into R&D, investment into technology, new ventures, solar and wind same thing 2018 we start to expect that these investments are to pay back. And on the same note we have the hundred million cost ((inaudible)) program, cost reduction program. That program has been going very well. Very accurately we are following that carefully month by month, line by line so the cost consciousness cost focus is there absolutely.

Overall the same applies for the first half of the year. The solution Russia delivering on many fronts is going to the right direction. We have the intentional development and future spending where we payback. And then the – on the generation as well as for Q2 and for the first half year the low hydro volume is putting pressure on the results. But overall I would say that strategic we are progressing as we have planned.

The income statement the notable thing is that the top line stat is growing, City Solutions Russia especially contributing to the growth. And one thing to note again is that when the Hafslund restructuring consolidated this would put about 25% more on the top line, 13% on the annual EBITDA, so a very significant contribution from the new restructuring. Then if I just take the key things from the income statement in the second quarter on the items affecting comparability nothing special there. The hedge devaluations are impacting our results. So that's one part of the EPS impact also that you can see. Share a profit of associates joint ventures in Q2 the main contributions coming from Hafslund and PGC-1 and then (Vladimir) contributing in the first quarter of the year.

On finance cost, the finance cost going up a little bit but actually interest cost came down and net debt is down €1.1 billion. The interest on the tax payment and the decision we got from the court

€7 million is in these numbers and then fair value changes. But like for like interest cost is coming slightly down.

And then we booked the tax decision that is visible on the income tax expense. So that decision we will appeal of course but the reason we booked it is that the Supreme Administrative Court take this for the handling it's up to a decision. Now we took the decision to book this on the tax line. And I will talk about on the cash flow slide about the payment. So Swedish tax case 14 cents on the items affecting comparability 4 cents. And in second quarter last year 5 cents so very close to each other when we cleaned these onetime items away.

On the cash flow statement then EBITDA up year on year, very small movement on the ((inaudible)). The paid net financial cost on a very normal level in Q2 this year but last year we actually did €127 million of the taxes already. And just one note there also when we have seen it from a liquidity point of view and then interest point of view reasonable to say the demand is taxes we have been doing so. So we have very limited cash flow exposure to the tax cases we have open at the moment.

Then in the change in working capital normal seasonality a little bit improving. And then NASDAQ Future settlement brought some positive cash flow also working capital this quarter. Then when we go down the lines CAPEX on a steady level €128 million on the acquisition all shares the biggest item was the last Ekokem shares that we acquired and some smaller parts.

Changing cash collaterals this is the remaining NASDAQ Forwards. But gradually over the coming years this number will then shrink away and we will move completely to the daily settled futures so then the movement is only the working capital. Then another investing activities this is the receivables basically receivables from associated companies. And then the remaining parts of ((inaudible)) divestment proceeds. So all in all cash from operating activities €230 million so that was clearly better than last year.

And I move to the debt portfolio, so debt total interest bearing €4.7 billion, average interest rate at 3.4. And when we look at just the euro and Swedish interest it is at the level of 2.0% of competitive level. And new issue markets of course if we need to be there would also be at historically very low levels. Maturities this year are very small, next year around €600 million, so from a liquidity point of view very little pressure for us on the debt side.

On the key numbers on the balance sheet EBITDA around €1.1 billion last 12 months and interest rate bearing debt €600 million on a net basis so comparable net debt to EBITDA at 0.6. Liquidity is very strong. We have €4 billion in liquid funds and actually it's strong and we have head room available. And then finally for the outlook we continue to expect that electricity demand will grow about 1.2 a percent on average. And we see that electrification continues to push ahead. Electric vehicles were mentioned. We – I think we see the news flow all the time so giving potential upside in the future for electricity demand.

Our CAPEX guidance remains the same, maintenance CAPEX at the level of €300 million, depreciation around €400 million so we are keeping well below that. And then we are making significant investment into the future also on CAPEX, our capex guidance for this year approximately €800 million. Hedge levels for '17 we have actually taken down. We were at 55% previous quarter for this year, now 45%. And we hedged price up €1 from €30 per megawatts hour. For '18 the hedged level is the same, 45% but our hedge prices up €1 to €28 per megawatt hour.

And we continue to guide for the same effective tax rate around 20%. The positive news is as we have learned earlier that Sweden has made significant changes in the nuclear taxes abolishing them completely by 2018 and then decreasing the real estate tax rate down to 0.5%. And we had appealed for previous to pay taxes into the Swedish administrative courts with regards to one of our companies in Sweden.

And we got the positive decision 53 million in euro terms taxes were actually also paid to us. So from a cash flow point of view this would be visible in our Q3 numbers. Tax authority has the possibility to appeal for this. They don't need a permit to do it so because of that we have not add the profit and loss booking on these taxes from a cash flow point of view these taxes we have received. This was shortly the presentation for Q2. So now I think Pekka and I are happy to take questions. ((Inaudible)) please.

Man 1: Right. Thank you very much Markus and Pekka. So we will now move to questions. And let's start if we have any questions here in the audience or if not then operator we will go directly to the lines.

Operator: As a reminder it is Star 1 for questions. We'll go first to Vincent Gilles with Credit Suisse.

Wanda Wierzbicka: Hi. Good afternoon Wanda Wierzbicka with Credit Suisse, two questions from my side. Firstly on your wind (oceans) in Russia what you be able to give us more details like your estimated cost per megawatt, expected timeline, expected power generation, something similar that's to the information given by ((inaudible)) Russia? And secondly on your cost cutting plan how much has been achieved so far? Where are looking for your savings? Thank you very much.

Pekka Lundmark: Okay thank you. I take the first one and Markus takes the second one. We are not in a position at least yet to comment of the cost side. Of course we have very detailed calculations. We have had a lot of discussions with technology suppliers. There is also – there are also certain requirements when it comes to localization of certain parts of the technology. All these play into the equation.

I want to emphasize one thing that this investment funds that we have in Russia this joint venture with (Roushman). It now has a license right to build 1000 megawatt. But the actual investment

decisions have not yet been made. And they will not be made in one go in one chunk of one for 1000 are anything like that. Most likely in smaller basis project by project 50 megawatts here and 50 megawatts there. And then we will throughout that time we will be of course optimizing the cost side as we go. The cost of technology continues to go down. But we have now fixed – – and this is the good thing – – is the tariff side, the income side for this. And then case by case depending on how they cost situation looks like we will then make the investment decisions. But we are not yet in a position to comment at what that the cost would be.

Markus Rauramo: And then with regards to the cost program so the 100 million is for the like for like costs. So we look group before do an acquisition before Ekokem acquisition. And then we have separated the underlying costs and the new investment. You will still see some result of this if you could see the like for like numbers.

But at the same time as you saw from the presentation quite visibly we have been increasing the investment into the future in technology, new ventures, new businesses and R&D. It's hard to see from the actual numbers. But some impact is still left. When – we have been following this very carefully and the actions were started I would say 1-1/2 years ago and put in force quite quickly. So some part of this is still to come. Mostly all the actions are there. They are running already.

Pekka Lundmark: Most of it is in the run rate already. There is still some small things to come but most of it is in there now.

Wanda Wierzbicka: May I give a quick follow-up question? What is your R&D expense estimated for 2017 because last year you spend €52 ...

Pekka Lundmark: Our...

(Crosstalk)

Pekka Lundmark: ...((inaudible)) for 2016 which is the last year when we published this was 1.4% of sales if I'm not mistaken. (Renée) is looking for the euro number there we are...

(Crosstalk)

Pekka Lundmark: ...talking about.

Wanda Wierzbicka: But should we assume 1.4% going forward for '17, '18 and '19 or are you going to increase your R&D expenses?

Pekka Lundmark: If we are increasing it in relative terms it will not be a dramatic increase. There may be a small relative increase but nothing really dramatic. Of course our sales are also increasing so that gives us some room to increase. This is the R&D part now we are getting the number.

Wanda Wierzbicka: Yes. I get...

Pekka Lundmark: Fifty-three million.

Wanda Wierzbicka: Yes. Okay thank you very much.

Pekka Lundmark: Yes €53 million of that was (.43).

Wanda Wierzbicka: Thank you very much.

Operator: We'll go next to Sam Arie with UBS.

Sam Arie: Hi. Good afternoon. Thank you for the presentation. I have three questions if I may. The first is on your capital redeployment strategy. And you did guide earlier in the year that we should expect a significant redeployment of capital during 2017. And I think since we last spoke there's been some coverage in the media that you might have been looking at a transaction involving Uniper. On the other hand (Bahan) had signaled that their sale of Uniper shares might not take place until 2018 for tax reasons.

So I just wondered if there's – I'm sure you won't comment on Uniper. But if you could confirm whether your guidance for a significant part of the capital redeployment still to take place this year whether that guidance still stands or if there's any update? That's my first question.

Then secondly on the retail business if you could just give us a sense there whether the margin pressures you described will prevent you from being able to grow the retail EBIT on a like for like basis? I'm saying setting aside the customers you've acquired through Hafslund do you think you'll be able still to grow EBIT from the retail businesses by these pressures?

And then thirdly my last one is very easy. I just noticed that your hedge ratio for the rest of this year is a little under 50%. And I think at the same time last year it was more like 3/4. So I just wonder if there's any change in your hedging strategy and if perhaps you see upsides to the Nordic forward price there if there's some reason why you're holding back the hedges? Those are my three. Sorry for so many but thank you for your answers.

Pekka Lundmark: Okay thank you. I take the first two and then Markus takes the hedging question. When it comes to the redeployment strategy if we go back to the time when the divestments were published we already then said they'll publish that's a rough strategic target that the redeployment would take about three years. And we have wanted to maintain that and we repeated that also at the Capital Market Day where we said that our target I think we worded it something like the main part of the redeployment would be done by the end of 2017.

Of course that is still our goal but at the same time it's not a target that we would do at any cost. So it is more important to do good deals than to do deals by a specific date. And that's why we explained the three criteria that we have for the redeployment target. Hafslund meets all those targets extremely well so I would say that that's a classical example of exactly the type of deal that we would be interested in doing.

We are looking at multiple possible situations at the moment in different parts of Europe in different countries. Whether anything will materialize in the near future I do not want to speculate on. Repeat what I say that the most important thing is to do good deals that are good for the shareholders. If it takes longer than it takes longer. But it is important to do it in the right way and not be in too much hurry. So this is the comment about the strategy and the redeployment.

Then retail, I mean I would love to be able to answer that question that how it will look going forward. Of course Hafslund we'll add a lot of new customers, 1.1 million new customers. It will add a lot of new EBITDA and EBIT. Actually the EBIT or profit per customer in Hafslund is higher than in Fortum today. And the reason is that there is much more electric heating among those customers in Norway than there is today.

Hafslund also gives us important synergies because that business it's a little bit like banking that the back office on the system costs are a significant part of the deal. And of course now when we get a larger customer base in a way fund the development of these systems it's going to be a very important synergy driver. But then when it really comes to the margin pressure and then how the profit will look in the future now when we have 2.2 and have 2.4 million consumers the key thing will be profit per customer not only to standard traditional electricity retail contract as we know it today. That type of a business model will be under increasing pressure when it will be easier and easier for consumers to compare deals and always automatically select most attractive deal. That's why this needs to be done in the future through product development,

where you target to increase revenue per subscriber or customer not subscriber that telecom business but customer Markus who is heading this business and sitting here he's coming from telecom.

Here we are talking about customers increase revenue and profit per customer through widening the scope of offering into new types of services. And this is what we are putting a lot of that development money into at the moment. And we'll be looking more into this in the future. So this explains the kind of the strategic rationale for this business. This is a long explanation. And I unfortunately have to end it by saying that I will not be able to give a more detailed answer to your question, and then Markus the hedges?

Markus Rauramo: The one thing I do note on the retail is that the basis the cost to serve for us is very competitive. So that gives us the possibility even in the very traditional way to plug in smaller customer basis. So that possibility we have all the time. But I think for the future it's absolutely clear that the new product development is needed.

Then for the hedges it – the hedge level for the rest of the year did come down but this – the hedge levels in Q2 for the rest of the year when we look historically it has varied between 45% and 75%. So this is not out of normal range. But I think it clearly indicates that we do see potential still in the end of the year with the hedge ratio coming down. I think I'll leave it at that. So message there is clear.

Sam Arie: Yes, that's very helpful. Thank you. I appreciate that. Can I just maybe on the retail business because I understand that's difficult but that's obviously new information given us today. Can I just try a different way of asking but if I have it right I think with Hafslund you will have just under 2-1/2 million customers about 1/3 in Norway, Sweden and Finland. Is that right? And is the margin pressure that you've been describing on this business equal in all those three markets or is it particularly in one market that you're feeling it?

Markus Rauramo: Yes, it's not equal in our market. So the - our portfolios, customer portfolios are different in different countries. We see different type of pressure, different movement from fixed placed contract to spot contract they're certainly not equal. And we also live very closely on the parts of the market we can change and our activities on a daily or weekly basis depending on the market situation. We follow that closely a number of competitors also is very large.

Pekka Lundmark: As Markus said earlier we are well equipped to participate in tough price competition if needed because we are so competitive on the cost to serve. But one additional reason why we cannot yet go into any more details about the strategy is the simple fact that Hafslund transaction has not even been closed yet. And that means that we have no ways to look at the details from that business or give instructions. We are still competitors on the market and we are extremely limited when it comes to doing any joint planning or anything like that. That will have to wait until we are really owners of this business. And then we can come back to your question and hopefully shed some more light on the future strategy.

Sam Arie: Okay, very good. Thank you. I appreciate your answers.

Operator: We'll go next to Javier Garrido with JP Morgan.

Javier Garrido: Afternoon, a couple of questions firstly on Hafslund. And I understand totally your restrictions in what you can comment. But if – instead of looking for a way we look backwards the EBITDA of Hafslund markets has increased very substantially by 240 million crown in the last three years. Are you comfortable with that 555 million crowns of EBITDA in market as a sustainable number or is there any element of non-recurrence? And the second question on Hafslund you have mentioned systems again there have been examples of problems in the integration of systems in different suppliers when things haven't been put together. How

comfortable are you are with the compatibility of the systems of your platform and the Hafslund platform?

And then the other question was on your deployment of capital you have mentioned that you have invested so far approximately 20% of the €9 billion to €10 billion that you raised from your disposals. But since you made the disposals and the profits from your power business, power and energy business have dropped and you have paid substantial amount of dividends do you still believe that your reinvestment capabilities can reach €9 billion to €10 billion or is it fair to assume that you will be able to reinvest a small amount of money than what you got from the disposals? Thank you.

Pekka Lundmark: Yes, thank you. I take the second question and Markus gets ready to comment Hafslund. What will determine the headroom available for the remaining investment is of course what type of targets we find because of course one key criteria like in Hafslund where we get the €130 million EBITDA is for cash generation potential of that of the target because of course we have a group target of net debt to EBITDA of 2.5 and how much then the target provides additional debt capacity is one determining and key determining factor when we are deciding. You are absolutely right that we have now two years behind us where we have actually returned some of this money to shareholders through paying a higher dividend, €1.1 dividend even though the relative results per share the share – earnings per share has been lower than that. So this goes back then to the dividend question which we have commented earlier. And there we are looking at both redeployment and dividend in one package so that until we reach roughly the target date gearing we will be looking at dividend decisions separately each year.

And that decision will be based on the availability of acquisition targets, market outlook through the current balance sheet situation. And all these things play into that decision. And then of course what kind of acquisition target and how much we would be able to invest in that is one key element in that equation. So I do not have a one number for you that this is how many billions it is

that we would be able to invest because it simply depends on what type of targets we would be investing in.

Markus Rauramo: Then if I take the Hafslund related question, so I will only comment about historical events and I think I'll leave the future comments then for Q3 or whenever the transaction has closed. But historically we see similar development, good improvement in profitability. But for our own part we also see that competition is steepening in all three countries but that had been mentioned. But that's just what we see. And then for the sustainability we really leave that to opine on once the transactions are closed.

When it comes to systems and of course it's a fair question that there could be efficiency gains - gained there we are very, very aware of the issues that you pointed out. So these are very delicate especially if we have several millions of customers we cannot afford any mistakes. So we approach this very carefully. We will do our homework properly before making any decisions.

We have ongoing system implementations going on right now and we put a lot of time and very good resources for that exactly because of these reasons. But also because these system renewals are part of preparing for the future so what we see now is that systems are bringing us the possibility to launch new products to digital as this is in a completely different way, create open platforms where you can plug in new type of applications, new type of services in a much more agile way than before and launch out new launches even on a weekly basis if needed or even more frequently. So I see a lot of potential on the system side but not only the risk part. When you do the upgrades you have to do it very carefully.

Sam Arie: Okay, thank you.

Operator: We'll go next to (Peter Visiska) with Bank of America Merrill Lynch.

(Peter Visiska): Yes, good afternoon and two questions from me, one just following on from your comments regarding M&A and European power generation. You mentioned that you're looking at a number of European countries. A while ago you said you had no intention of expanding further in Russia. Does that still stand or if acquisition opportunities arise in Russia would you consider those?

So that's my first question. The second one just clarification on a number and apologies if you've already mentioned this but could you just tell us what the pro forma 2016 net income impact of the Hafslund transaction would be please?

Pekka Lundmark: Okay, we have a – if I comment Russia first I repeat what we have said earlier. We have – now after we have finalized the big construction projects the organic investments where we have built eight new gas-fired units over 2 gigawatts of new capacity we have no plans to start new projects of similar size in that country.

What we are doing though is smaller projects. We are building wind. And what we also have said that absolutely we have as we always have an interest to keep our eyes open for different type of transactions where we might be selling, buying or trading assets. So we are not saying no to deals on Russian in general. And actually as I said the market environment currently looks quite promising. Of course there are risks also in every country but right now it looks quite promising but we are not planning to start new multibillion euro construction projects in the similar way as we have just completed.

Markus Rauramo: And then shortly on the Hafslund impact so I give a little bit more color because there are more moving parts than just the pro forma numbers. So the transactions actually go so that we tender our shares for €730 million. We acquire then businesses for €970 million. So the net investment we do is €240 million. And through that we would have 100% of Hafslund market business.

Then we combine Hafslund heat climate routes only into a 50-50 joint venture owned by city of Oslo and Fortum. And that we consolidate not in our numbers and then we buy 10% of Hafslund production. And that will be reported as an associated company. With this we will get a onetime sales gain of around €330 million. So that's 37 cents EPS with preliminary numbers. And that will then eventually show also in our full year EPS numbers. The top line would increase by about €950 million and EBITDA be increase €130 million. Then once we do the purchase price allocations et cetera, then we will see the operating profits impact after that.

(Peter Visiska): Okay, thank you.

Operator: We'll go next to...

Markus Rauramo: At least you can find by the way ((inaudible)).

Operator: We'll go next to (Alvin Valetski) with SED.

(Alvin Valetski): Yes, good afternoon. This is (Alvin Valetski) from ACBA. Actually three questions from my side, so coming back to consumer business in Q2 so you are basically flagging two topics which have been pressing earnings. Are we talking about if I look at the magnitude are we basically talking about maybe let's say €5 million to €10 million visible in the quarter? And are these two issues fairly similar in terms of earnings impact size?

Then what comes to other segment and really the results of stuff happening with solar and wind investments coming on stream going forward are you planning to provide some further details or better transparency in terms of operational performance within this segment?

And the last one is actually relating to ((inaudible)) order three and TVO came out earlier today stating that they have been achieving some further progress what comes to arbitration process. Is it an important milestone in your opinion and what is your best guess how long this will be continuing? Thank you.

Pekka Lundmark: Okay, thank you. Markus takes the TVO question. The - without getting into too much detail those two components margin pressure and then the discretionary investment in development are roughly of the same size in terms of their result and impact in the quarter. But this is only rough guidance.

Then when it comes to solar and wind absolutely when the portfolio grows we will need to one way or another shed more light on the operational performance. We do not – it has so far been so small impact that this has been an insignificant issue. But of course we will need to look into this in the future when the portfolio grows.

Markus Rauramo: Yes, then with regards to the - if I understood correctly at the TVO arbitration this was the third partial award from the different (mainframe) proposals that had been handled in the arbitration. As you have seen in the TVO stock exchange release the decision was clearly positive on TVOs (round). And it strengthens the view that TVOs treatment, TVOs approach has been correct and also than gross profit for the accounting impact.

There is one main claims proposal still to be handled and awarded and then the financial award, so these two are still to come. And this award was important because this was really a core claim in the supplier's arbitration demands so important for TVO. But of course the key thing is that the project gets completed in the timeline that the supplier has indicated.

(Alvin Valetski): Okay very clear, thank you gentlemen.

Operator: We'll go next to Dominik Olszewski with Morgan Stanley.

Dominik Olszewski: Hello, thanks for taking my questions, just two. My first question is within the consumer solutions business aside from margin pressure will the – will this addition of product development spend continue into 2010 and onwards? Is there any specific one project taking up most of this spend?

And then my second question is on the Swedish nuclear fund. Obviously the review every three years on the nuclear waste fees and do you expect a final decision in December? Do you have any expectations on the financial impacts ((inaudible)) and are there any other material impacts? Thanks.

Pekka Lundmark: Now getting back to the development investment in the consumer solutions this is something that we will know after the Hafslund the deal closes. We will plan together with them when we see their customers what the trends are there what their customers are wanting to have been what type of development programs Hafslund have ongoing. So that's why it is unfortunately premature now to given any guidance on how much the development spending would be in the future.

Of course this type of spending is necessary but it's also needs to produce returns. And the good thing is that it's discretionary. So if it does not produce the desired return it can be stopped. This is what we – now we're looking after we close the deal with Hafslund that what are we spending on, what are they spending on, how are we going to optimize that whole development investment in the future? And this is something that we will need to come back to later after the deal has closed.

Markus Rauramo: Then when it comes to the Swedish nuclear fund than also to run on ((inaudible)) we have a no close on that but which number was it and then to ((inaudible)) is there anything out of what we have reported that we are expecting that we should comment? I don't think so.

Dominik Olszewski: Okay thanks.

Male: It's now '16 but when it comes then to the financial impact we have not indicated a figure for that.

Dominik Olszewski: Okay, okay thank you.

Operator: We'll go next to...

Markus Rauramo: But you can find ((inaudible)) noted.

Operator: We'll go next to (James Brian) with Deutsche Bank.

(James Brian): Good afternoon. I also had a question on ((inaudible)) three. I was just wondering whether you could give an update as to where the project's up to now because I believe the latest was it was due to be commissioning this year and to come online next year. I know you're a bit limited in terms of what you can say because TVOs the kind of main company that makes announcements. But if you could just give an update on that, that would be great.

I can also see from the forward curve that there's bit of a downward drop in spreads for Helsinki area over the next couple of years. I was just wondering if you had any thoughts on that and whether you put that down to ((inaudible)) to three coming online and potentially easing some of the capacity pressures in Finland?

And then thirdly also on nuclear your ((inaudible)) the first half of this year are pretty spectacular. But they look like they're, you know, mid-90% maybe even kind of high 90%. Is there anything we should watch out for in terms of kind of vouches and things that might make that unsustainable or do you generally think you can sustain that kind of pretty spectacular performance? Thanks.

Male: Yes ((inaudible)).

Pekka Lundmark: Okay Markus will take the first one - the second one. But coming back to okay what – I mean the information we have is that the supplier consortium has informed TVO that the target is to start electricity production by the end of 2018. That's the only information we have and we have no reason isn't the question that information.

Then when it comes to the impact the Finnish area prices after the production is there well it's 1600 megawatt hours if it's run 8000 hours we are talking about more than really more than 10 terawatt hours of production. Swedish nuclear production is actually going down then there is some increase in consumption. There is still some thermal going out. There is some new wind coming in. How all this will play against each other as the demand supply balance? And this is an area as you remember from the past that we of course have our own models. We are making our estimates at how the curves will look for the future but this is not something that we would publish.

Markus Rauramo: Then the final question I think was on the good availability. Absolutely that we noted with pleasure and I think we are very happy about the – now the disclosed into the same category as realizing our potential. And this is when we are really putting our competence into play because this is what we can deliver. Of course then there can be one of issues but we cannot even guarantee that this will continue in the future but good work from our nuclear people.

Male: ((Inaudible)) questions would – one more question?

Operator: We'll go next to José Lopez with Millennium.

José Lopez: Hello, good afternoon. I have one question. In terms of sustainability targets you have a sustainability target of being under 200 grams of CO2 per kilowatt hour for the short term, that's ((inaudible)) 2017. Could you tell us a little bit what is your aspiration in terms of this metric over the midterm say after 2020 and how committed are you to this? Thank you.

Pekka Lundmark: We are extremely committed to lowering our footprint. We have different types of portfolios in different countries and of course this then goes back to what type of portfolios we will be buying. We have said one thing which is the most important driver in our strategy and also in the vision for creating a world that we want to increase CO2 free production in our portfolio. So that is the long term direction that we want to take.

And to the extent we have us we have had (possible) assets we will then look at how we can optimize their emissions what is the right time to shut them down? And this is part of normal operation. We are happy – very happy with the achievements that we have made the fact that 97% of our production in the EU was CO2 free last year. And we hope to be able to continue this path also in the future.

José Lopez: Thank you.

Male: Much Pekka and Markus and thank you audience. And thank you all for a very active participation today. And if there were still any unanswered questions please give a call to (Ronnie) or me and we will answer them gladly. And otherwise we will see you at the latest in three months' time. Have a nice evening. Bye.

Male: Thank you ((inaudible)). Bye-bye.

Male: Thank you.