

**Conference Title: Fortum Oyj Interim Report for January - March 2017**

**Speakers:**

**Pekka Lundmark CEO**

**Markus Rauramo CFO**

**Sophie Jolly, VP IR and Financial Communications**

**Måns Holmberg, Manager IR and Financial Communications (moderator)**

**Date: 27 April 2017**

Måns Holmberg: Hello, and welcome to Fortum's first quarter results teleconference and webcast.

Today, our CEO Pekka Lundmark and our CFO Markus Rauramo will present the results of the first quarter and also comment on the recent transactions we have made. This will be webcasted and you will have a chance to ask questions after the presentations. We will have in total roughly 1 hour, so we need to end at about 5:05. But, you can always, of course, contact us at IR, anybody of us, if you have further questions. But now, Pekka, please.

Pekka Lundmark: Thank you very much, Mans. Dear investors, welcome to this combined Q1 announcement transaction webcast and Q&A. We have here in the room, in addition to the IR department and Markus, also Tiima Tuomela, who is heading Generation, and Timo Karttinen, a former CEO who will actually be heading the Hafslund transaction, so if you have specific questions about those issues, they will be happy to participate in the Q&A.

Just a few general remarks on the quarter first before I get into Hafslund. We are actually quite happy with how everything went during the first quarter. Market conditions are slightly improved. I mean, they were not great, but they were a little bit better than in the first quarter 2016. We have slightly higher wholesale prices, but of course, in historical

comparison, the prices are still on a fairly low level. The highlight of the quarter clearly was the Russian result. We now have a 12-month rolling result which exceeds our target of 18.2 billion ruble. I'll come back to that a little bit later.

But overall, of course, in addition to Russia, the fact that our comparable operating profit increased from last year's 275 to 313. There was also, in addition to Russia, the integration of Ekokem as a major contributor to this increase. In the Generation business, we had, because of weather conditions, still fairly low hydro volumes, but partially offset in the result by the little bit higher achieved power price.

Quite important piece of news during the quarter was that we split City Solutions into two divisions. City Solutions, which will be the heating and cooling business and the recycling waste businesses, including Ekokem. And then Consumer Solutions business, which will include our electricity sales, our customer service and potentially later also some of the consumer-related oriented ventures that we are working on. These two businesses have quite different business logic in them. That's why we feel that it makes sense to separate them so that they both get the management focus, including the management team that they deserve.

One perhaps more, but still very important piece of news in the quarter was the completion of the solar 70 megawatt solar farm in India. The reason I mention this here is that we were talking quite a lot about the Indian solar strategy at the Capital Market Day. You may remember that we kind of put a bracket 200 – 400 million into the investment size there. We've been following this. We have currently in operation now before this, 10 megawatt and 5 megawatt, and now we have 70 megawatts on top of that. And then we are still working on a 100 megawatt project that we expect to complete later this year.

But the point here is really that the 70 megawatt was commissioned and completed on time and on budget, and we will meet or perhaps even slightly exceed the result and the profit targets that we have set for this investment. So, from that point of view, this 200 – 400 million investment plan that we have in India, at least based on what we see today, seems to be delivering the results that we were expecting. Cost side is proceeding according to plan. We had the 100 million target. No reason to change that one. We are in plan.

And in general, if you again remember what we communicated earlier about our strategy on investment, I'm quite happy with how things are proceeding. Remembering that the investments are divided into two phases. Phase one is the major reallocation of the capital that we got from the divestments of the distribution networks with three key criteria. We want to invest in businesses or acquire businesses that number one, are within our existing core competencies; number two, they should be close to our geographical home market; and number three, they should have existing cash flows.

These are the three criteria when it comes to the phase first, phase one investment. And then, this way, we want to maximize our cash flow. That cash flow is to be used for two purposes, number one to be a competitive player on the dividend market and number two, invest in phase two into the energy system of the 2020s. And now, of course, when we then move into the Hafslund transaction that we published yesterday. Of course, the good thing about this is that this meets all the three criteria that we have set ourselves for phase one. Of course, we understand that this is fairly small.

So, this is definitely, even though it is part of phase one, it is not the phase one. We understand that we will need to do much more, but the good thing is that this meets all the criteria and this makes a lot of financial sense. We started from a position where we had, and of course still today officially have, a 34% minority of Hafslund, Oslo city owning about 54%. And the first step in the transaction is that we sell our share to the city of Oslo for €730 million. This is the first step. And then in the second step, we do certain acquisitions, so that the end result is that we will own 100% of Hafslund Markets, which is the consumer business.

We will own 50% of an entity that will include parent Hafslund heat business and Klemetsrudanlegget, which is a waste-to-energy operation that is currently 100% owned by the city of Oslo. So, we will own 50% of this integrated value system that is currently split into two different companies, but is very much part of the same value system. And we will be owning that one. And we will acquire 10% of the production business of Hafslund. And the price that we pay for these three acquisitions is €970 million.

So, the net effect of this to both the sell of shares and then the acquisitions is a net investment of €240 million for Fortum. And what do we get against all this? We first of all will book a €330 million sales gain for the divestment of the shares. That's approximately 37 cents per share. And as a result of the consolidation of both the markets business and the heat business, we expect to consolidate €950 million additional sales and €130 million additional EBITDA.

And now, of course, going back to the strategic goal of investing into something that has existing cash flow. I will not get into details now, but if we just now start thinking that we now acquired Duon, Ekokem and now certain parts of Hafslund, when you add the

EBITDA capacity together of these three businesses, we already get a number that starts with a 2.

And remembering that we divested €500 million of EBITDA in distribution, so I would argue that even though we have used only between €1 billion and €2 billion of the money that we divested, we are on a good way in the start of execution for phase one.

Of course, remembering that we still have a lot of firepower left for further market consolidation. So, I think we're on the right track.

Quickly, a couple of points about the two main businesses that will be consolidated into Fortum in the Hafslund transaction. First, the markets business, which is really an attractive 1.1 million consumer business with good electricity sales volume, almost 20 terawatt hours. The interesting thing is that Fortum's volume with 1.3 million consumers last year was 12.3 million terawatt hours, 12.3 million, not million, but 12.3 terawatt hours.

So, it means that the number of terawatt hours per customer, or kilowatt hours per customer, that Hafslund is selling to the consumers is much higher. And the reason is the higher share of electric heating among these customers in Norway. Together, we will have a Nordic leading consumer electricity business company with 2.4 million customers, approximately the same amount in all three countries – Finland, Sweden and Norway. And this will be a great, great platform for further growth for investment into new services.

This will give us the critical mass to invest in digitalization, integration of new services in homes for consumers, for businesses. This is a significantly stronger platform to build on than the one that we had previously. And the other business that we will be consolidating

is the heat business. We are now after this transaction going to be the leader, the market leader, not only in consumer electricity, but also in district heating in Norway.

Oslo is the fastest-growing capital in Europe at the moment. And the interesting thing there is that the relative share, or the market share of district heating in heating in general is rather small in Oslo at the moment. Hafslund produced 1.7 terawatt hours of heat last year, which compared to for example what we have in the Stockholm system, 8 terawatt hours, is small. Of course, Stockholm is a larger city also, but in relative terms the market share here is much smaller. And there will be interesting growth opportunities in this business, because for example, there is still a lot of oil heating in Oslo. And there are plans to actually prohibit that through legislation.

So, we believe that we will get both growth through the growth of Oslo itself, then also there are possibilities to make the relative share of district heating grow when the city develops further. And a additional attraction here, of course, is in the integration of the waste-energy operation of Klemetsrudanlegget into the same company, because through operating it with the same, in the same entity through one integrated management of course gives us possibilities to make the whole operation more efficient and more productive than what it is today.

So, we are very happy about both of these two deals, both in market and the heat business of Hafslund. Of course, we need to remember that the deal is not done yet. There are two main conditions. One is the approval by the Oslo City Council. The meeting will be on the 14<sup>th</sup> of June. We are hopeful. Our partners at the city of Oslo seem to be quite hopeful as well. But, of course, it's not for us to comment more in detail

on the political process. That the city will need to go through. But, once again, we are hopeful about a positive outcome for the decision.

And the other one is then competitor and anti-trust clearance, which of course also is an important milestone. But also there, we do not expect any major problems, but of course there is always the need to be prepared for at least a discussion with the relevant authorities. But, we are hopeful there as well. And into Q1, electricity consumption totalled 114 versus 117 terawatt hours in the Nordic region, approximately the same. A little bit warmer weather was the main reason there. But the prices were actually higher, mainly because there was much less water in the system, but also because of higher coal prices compared to last year.

Finnish area price was in relative terms closer to last year's level, but the Swedish area prices were significantly higher, €31.8 compared to €24.1 per megawatt hour. So, the price recovery was there, but of course, as I said earlier, these prices are still low in terms of historical comparison. And when we talk about emission prices, there was no movement at all, or actually if there was movement, it was to the wrong direction. The market is not yet discounting the plans that there are to strengthen the EPS system.

There are now tri-party negotiations going on between the commission, the parliament and the member states, and it is quite likely that the positions seem to be so close to each other that it is quite likely that there will be an outcome during the summer that could be moving into a directive towards the end of the year. So, that looks positive, and the ambition level of the commission level is to A, to get a significantly higher CO2 price, and that would of course be then a supporter for the power price going forward.

But once again, currently the market does not seem to be believing much in this case. But this is something that we are, of course, following very closely. In Russia, no big changes in electricity consumption, 2.9% higher spot prices than a year ago. Water reservoirs are now pretty close to normal level. As you can see from this picture, throughout Q1 we were on a lower level than average, which is again a reason for a lower than average hydro production.

The difference in relative terms was even bigger in Q4 as you remember from our Q4 results. But the same thing is visible also in Q1. But now, when we get into Q2, at least the starting point for the quarter seems to be a more normal situation. Commodities, I already commented CO2. I'm not going back to that one. Coal price, and the higher coal price in the second half of last year and in Q1 this year has been supporting power prices. This is very much dependent on the Chinese policy decisions how it will pull forward. But also there, the signals have been quite hopeful. I would say that they've been signalling that there seems to be an interest to maintain prices somewhere on these levels that we have recently seen. And that would then, of course, be a good thing for power prices, because continue to support prices over here as well.

Prices have been volatile. There was a peak in Q1. Then there was a stabilisation in the system price around €30. And actually, then in the last week or so, we have again seen a bit even higher prices, even close to €40. But of course, this is very, very volatile. Nobody knows how it will go from here. But when you look at futures, there isn't much movement to the positive direction. These are higher in general a few euros than they were a year ago for the coming years, but no major improvements.

The development for the quarter year over year is positive, 30% higher, spot price €31.1 compared to €24 a year ago. And of course, then we are happy with the fact that we were able to get a 6% higher achieved price when also hedges and area price differences are accounted for. And €32.6, of course for us it's a low electricity price, but in these circumstances, we feel that it is a fairly good achievement. Also, good achievement is the Russian achieved price, which was actually came in at close to €30 per megawatt hour, including of course the currency strengthening and CSAs.

Achieved price in ruble terms was 12% higher than a year ago, and spot prices in ruble terms were 2% higher than a year ago. P&L, we had a nice increase in sales, mainly because of Ekokem. The same is true to comparable EBITDA. There, of course, the Russian support is strong. We went from €357 million to €423 million. And now, if we want to kind of speculate a little bit in advance, roughly speaking, Hafslund will add 25% to top line and 12% to EBITDA, as is the place currently before integration and before synergy. It's just the face values of the numbers as they are today. Of course, Hafslund is a case where we have a pretty interesting case for synergies as well. We do not yet give an estimate as to the value of any synergies. It's too early for that. But there clearly are synergies in the case.

But without any synergies, we are looking at potential for 12% improvement in EBITDA through the Hafslund acquisition. Comparable operating profit €313 and earnings per share 38 cents versus 37 cents last year. And in his part, Markus will join, will zoom deeper into cash flow. And I will in my part, with a few remarks on each division, starting from Generation. Sales roughly on the same level. EBITDA and comparable operating profit slightly lower because of lower hydro volumes.

We had 5.2 terawatt hours compared to 6.5 terawatt hours a year ago. So, unfortunately, this higher achieved power price could only partially offset this volume decline. We had excellent nuclear availability. We had low hydro volumes. We can say the opposite about nuclear, excellent availability during Q1. City Solutions, both upline and EBITDA growth, mainly through the Ekokem acquisition. But we also had a better than before fuel mix, which impacted the result possibly during Q1.

So, combination of these was a reported EBITDA comparable EBITDA of €94 million compared to €70 million a year ago. Consumer Solutions is now a new division. So, the previous City Solutions numbers do not anymore include these ones. Profit-wise, this is a fairly small business still today. We had last year a comparable EBITDA of €55 million, but now of course a lot will change now when Hafslund markets will be integrated. This will in terms of top line actually more than double in size when we get Hafslund into the numbers.

So, this is a very interesting case now for the coming quarters to follow when the Hafslund integration proceeds with the 2.4 million customers altogether. And this division will get a new head coming from outside Fortum from mobile operator, telecommunications and mobile provider Elisa here in Helsinki, Mikael Rönblad, and he will start, we said earlier, on the 15<sup>th</sup> of June at the latest, but probably actually a little bit earlier than that.

And then the last segment is Russia. The result development is very good. We have a comparable EBITDA of €168 million compared to €105 million a year ago. Strong improvement in comparable operating profit. Of course, part of this coming from currency or FOREX improvement. Off, out of the total €53 million comparable profit improvement

in Russia, €29 million comes from FOREX. That is important to note. But, the other operational reasons explain also a significant part of it.

And perhaps worth noting, we talked already at the Capital Markets Day as part of our renewables and wind strategy about the plan where we would focus our wind investments in the Nord Pool region in Russia. And there, I think the number that was quoted was say a general plan to build up to 500 megawatts of wind power in Russia over several years. This was in our presentation. We have now proceeded towards a formation of a joint venture with a company, Rusnano, which will actually share our risk in the build, in the build-up project.

There are no investment decisions yet. This joint venture that we have created makes it possible for us to participate in the upcoming auctions. Of course, this will all then depend on the attractiveness of the auctions, and the prices, and the terms and conditions that will be available. The existing project that we have, which is 35 megawatts, it is very attractive, €175 per megawatt hour tariff for 15 years. The future speed and ambition level will very much depend on what is available. We have put a cap also on this one in the same way as we did for Indian solar. We have agreed that our maximum equity commitment into this joint venture is €240 million, and that would be invested over several years, maybe over 5 years or so.

And each wind park most likely in sizes of 50 megawatts or so, each wind park will be subject to a separate decision. So, what we are creating here now is a framework and a possibility to participate in wind auctions in Russia along the guidelines that we presented at the Capital Markets Day last year. I have already commented most of the items in the water fall that summarises the difference between the 275 and the 313 that we reported

this year. Here also you can see in graphical format that how strong the contribution is from Russia. So now, I will give the floor to Markus. And then after that, we are ready for your questions.

Markus Rauramo: Thank you, Pekka. I will start by opening up a little bit the difference between the comparable and the reported operating profit. The reported operating profit was €389 million, comparable €313 million. And mostly the different in Q1 17 was due to the fair value changes of our hedges. So, that was by far the biggest contributor. In Generation over €90 million, a couple million in the City Solution segment, and then -€20 million in Consumer Solutions and nothing in Russia. So, all together, €76 million difference.

For 2016, the difference was a combination of fair valuations and sales gains for hedges and generation, sales gains and in City Solutions, some hedges in Consumer Solutions and then sales gains in Russia. If I move over to the income statement and some observations. There our sales top line absolutely grew. This was impacted by the integration of Duon, by Ekokem and foreign exchange impact, so significant change there year on year. The items impacting comparability that I just discussed from the previous page, €76 million. And then we had a drop in the share of profit from associated companies. This was mainly due to the TGC-1 associated company result.

Financial expenses came down, and that was due to that we do have lower debt, so we are paying interest on less debt than a year before. And income tax expense quite closely in line with our guidance, not totalling around 17%, but around 20% is where the tax rate should be over time. In the cash flow statement, main items there, EBITDA was higher on the quarter year on year. The realised FX gains and losses, these are a result

of the ruble and Swedish kroner hedges. So, this number fluctuates as the, as the currencies are moving.

We have negative now in Q1 17 and a big positive in Q1 16. The paid net financial costs are also following the amount of debt quite closely. That's why the paid net financials are coming down. Then, if we go down, net capital expenditure we have the main projects going on, big solar project, wind projects. So, these are for the respective first quarters the main items. And of course, overall, if I comment those, I'll be right-hand column 16 last 12 months. We do spend significant Growth CAPEX as well. So, Maintenance CAPEX around €300 million, and on top of that we are spending significant growth.

On the acquisition of shares, maybe the bigger items are there in 2016 full year and last 12 months. And there we have Ekokem and Duon. Then on the change in cash collaterals, this has been an item that is positive and negative, and these are relating to the hedge cash collaterals for NASDAQ for our electricity derivatives. This will over time reduce as we move forward more into daily cash settlement of the futures for electricity hedges. So, that bring us in total to cash flow before financing activities €280 million for the quarter. And for the last 12 months -€800. And I move over to the debt portfolio.

All in all, interest rates stable and as the debt matures, we repay that and of course, with our cash position, there is at the moment we have no need to issue, issue new debt. But, an overall comment on the debt market, of course, rates and market conditions are very competitive. So, if we would have to issue new debt, that could be done at very competitive rates today.

On our financial position and liquidity, balance sheet is strong. Liquidity is very good. In addition to the cash, we have access to ongoing credit lines. And one thing to note, this is, these numbers are before the dividend payment, which was close to €1 billion, so of course, today the situation is different after dividend payment. All in all, I would say that even given our strong financial standing, the internal focus is very much on efficiency and implementing the integrations effectively. So, no lack of focus there.

Finally, on the outlook, we continue to expect that the electricity demand will continue to grow about 0.5% per year on average. And that of course fluctuates with the weather conditions. All in all, that electricity companies to gain share of local energy consumption. Our Maintenance CAPEX estimate is, is around €300 million, but we are using the Maintenance CAPEX very effectively. And this year's CAPEX total, CAPEX forecast is around €800 million, including the Growth CAPEX .

For the hedges for the rest of the year '17, we have a hedge 55% at the level of €29. Last quarter, we were at 60% and €30. And for '18, we have a hedge of 45% at €27. And last quarter, the respective numbers were 35% and €26. Tax rate, as I mentioned already before, around 20%, and the positive news on the positive news on the tax front, on the real estate tax we of course communicated already earlier that positive movement. And when the Swedish real estate tax will be decreased over a few years from 2.8% to 0.5%, and this will have a significant impact on our real estate tax. I'll finish my part here. And I think we are ready to open for questions.

Måns Holmberg: Okay, thank you very much, Pekka and Markus. We will move over to questions now. And we will directly go to questions from the line.

Operator: Ladies and gentlemen, as a reminder, you may press \*1 to ask a question. Our first question is coming from Peter Bisztyga from Bank of America. Please go ahead.

Peter Bisztyga: Yeah, good afternoon. I'm Peter Bisztyga here from Bank of America Merrill Lynch. Two questions if I may. Firstly, on Russia, just trying to understand the movements in your CSA payments. You mention in your results release that there's a decrease relating to bond deals and an increase relating to spot market adjustments. Can you tell us whether, first of all, those were already effective in your first quarter reported numbers?

And then secondly, what the sort of net percentage impacts on your annual CSA payments will be? And then the second question relates to the Hafslund deal. It looks like over the last sort of 4 or 5 years, the markets in heat divisions of Hafslund have been growing EBITDA, , fairly rapidly by sort of 10% CAGR. Is that something that you think is sustainable going forwards, please?

Pekka Lundmark: If I take the Hafslund questions, that'll give Markus some time to think about the first one. Hafslund has done a very good job in the past years. Your observation is absolutely correct. And of course, we have a pretty high ambition level as well now when we integrate 1.1 and 1.3 million consumers into 2.4. There is a lot of good things that you can do there to continue to grow both the plan and bottom line.

I also commented the fact that Oslo is the fastest-growing capital in Europe with still relatively low market share of district heating and some legislation actually that potentially making conditions more interesting for district heating. And then there is the integration of the waste energy plant, which already today is the most significant supplier of heat into the system.

So, there's a lot of good things happening, but as we are not giving any items for any other businesses as well, we are not going to start speculation on as to how much we would expect this business to grow top line or bottom line in the future. But your observation about their good performance in the past 2 years is correct. And of course, we are not going to be sitting still for the coming years either.

Markus Rauramo: Okay, then for the Russian CSA, so the, the CSA payments are set so that the system looks back at where we were in the previous period. So, we got some optic on the CSA payments now because of the higher rate in the past. That has one impact. Then we had some new CSA units also coming on stream, so that has an impact for us. And we compare year on year. We had the FX impact as well, which is impacting positively Russia and then somewhat less at debt provisions in the quarter. All these three elements or four elements contributed to the improvement in Russia.

Peter Bisztyga: I guess kind of the question was more about the statement that you make in your results release where you say that CSA, the Russian system administrator reduced the CSA payments effective March 2017. And there's also been some review of the CSA payments relating to the electricity only market adjustments. I was just wondering when do those changes become effective, please? And what's the net impact?

Pekka Lundmark: Sophie will help.

Peter Bisztyga: Okay, thank you.

Operator: The next question is coming from Artem Bletski from SEB.

Markus Rauramo: We have that explanation in the quarterly release, so we can come back to this question specifically if you want to review the data. So, I think that's the best way to do it.

Artem Bletski: Yes, hello. Can you hear me?

Pekka Lundmark: Yes.

Artem Bletski: Oh, yes. Hi. This is Artem Bletski from SEB. I actually have three questions. So, starting with Hafslund, I know that you are not providing any details in terms of synergies. But maybe can you talk about, let's say, in what areas of corporations you're seeing the biggest potential and what type of synergies we are talking about there. So, is it basically new products and new offers what you are planning to put to the market?

And then two quick ones on Russia. So, so first of all, what comes to improved results in Q1, so I guess one element has been increased availability of capacity for CSA payments. Do we see any further potential to improve this kind of, the amount of your capacity being eligible to receive capacity payments? And the last one relates really just to regulated gas prices in Russia. So, it's also been stable for quite some time. Are there any projected increases in terms of gas going forward?

Pekka Lundmark: If I start with Hafslund again, of course, we are not as I already said, going to give out any, at least yet, any estimates on synergy. But if I start from the heat side, obviously, the fact that the heat business and the heat source, the waste energy plant will be put into one system. It does create synergy opportunities. And there are other synergies then between what we will have in Norway and in our other heat businesses in

terms of product development and in terms of cross-learning, etc., launching, and developing and launching new products.

So, perhaps more dynamic synergies. But on the cost synergy side, of course, the integration of these two is a key attraction. And on the market side, of course, when you put together two sizable consumer businesses with a significant need to invest into IT systems, into billing systems, into product development, into digital applications, into new smart home solutions, you name it. The fact that now these two businesses will not need to do this separately, but they can be done to one development network. And then delivering them to 2.4 million consumers is a significant advantage. But more into detail than that, I do not want to get.

Markus Rauramo: I can comment on the Russian CSA opportunities. So, first of all, we have now completed the Russian investment program. We reached the €18.2 billion target. So, the Russian organization has done great work there. It may be that there are more CSA-related opportunities coming up, and those, of course, we would then selectively and carefully assess that is this something for us. But I would say, put it that way, that we do have very strong competencies in Russia on this front.

And for the regulated gas price, this has been closely tied with the Russian GDP development and then it is up to how we see market developing and the gas price is strongly dependent on that. It's estimated - that actually has been published by the Russian authorities - is that it would be 2% per year, for the, actually for quite several coming, upcoming years would be the gas price, price trend.

Artem Bletski: Okay, thank you.

Pekka Lundmark: I mean, I, if I'm a little add to what Markus said about the CSA. Of course, we have two very different things. One is whether or not we would invest into new CSA projects and new build-ups. And there of course, we were talking about the wind, which we have now created a joint venture for potentially investing. That would be CSA. And of course, those decisions will then be pragmatic decisions based on the financial attractiveness of the deals.

We have been increasing capacity in some of our units. In the [inaudible] unit, we have done capacity upgrades, which means that we have slightly more capacity now in those units that will also then be getting CSA payments. So, there are certain things that we have been able to do within the existing facilities. But other than the wind discussion that is ongoing, we have currently no active projects to build new CSA capacity in the country.

Then the future CSA development for the existing capacity, that will follow the rates. And there has been a downgoing trend, which means that the annual increases that we are getting for the CSA, they seem to be coming down as what's now visible in the latest decision. But, now Sophie wants to provide a little bit more details about the previous question.

Sophie Jolly: Yes. Maybe because we are getting a lot of questions about CSA. So, there are two main components in the CSA. It's bond-related that is checked every year. And that's an average bond rate. It was last, for '16, it was approximately 10.9. And what they are using now is 10.1. So, we got a little bit less for that. Every 3 years and 6 years, they are also doing a correction into the CSA based on the electricity spot. And that is what has been happening now.

We are getting increased payments in CSA because of the electricity spot. Net, we are a little bit upwards due to this. And these are, these decisions were made in March, but they are retroactive. So, we will get that for the full year. Also, if you look at the interim report on page 13, you can see what the average capacity price has been for CSA, new capacity and for the old capacity. And compared to last year, or first quarter last year, you can see that new capacity came up from 871 to 980. And old from 149 to 157. So, we have gotten better prices in rubles than last year.

Pekka Lundmark: 12% higher achieved price in ruble terms than in the first running period last year.  
Up 12%. Thank you, Sophie.

Artem Bletski: Thank you.

Operator: The next question is coming from Sofia Savvantidou from Exane. Please go ahead.

Sofia Savvantidou: Yes, hello. Sofia Savvantidou from Exane. Thank you for taking my questions.  
A couple from my side, first of all, on Ekokem, if I remember correctly, when you made the acquisition, you had talked about an annual EBITDA contribution of about €60 million or €65 million. At the slide 17 of the presentation today, you are talking about €12 million EBITDA from the consolidation of Ekokem. I just want to get a feeling on sort of if that have to do with seasonality? Does Ekokem contribute more sort of in different quarters? Or do I just remember wrongly the annualised contribution that you were expecting?

The second question is just to clarify something on the Hafslund transaction. You are mentioning about €130 million of EBITDA contribution. I just want to check, because right

now, Hafslund gives you about €50 million of equity income. So, is the €130 million that you're talking about a net effect, or is it, should we add the €130 million to the EBITDA and then subtract about €50 million from your equity income going forward? So yeah, these are my two questions.

Pekka Lundmark: If I take Ekokem first, we, when we communicated the acquisition, I believe it was more than a year ago. We said that the €700 million purchase price that we had was approximately expected 2016 EBITDA times 11. And that's roughly where we are. It is meeting our expectations in terms of EBITDA. So, there may, of course, be quarterly or seasonal or whatever variations. But in the big scheme of things, it is meeting our EBITDA expectations as communicated when the company was acquired. So, that is the first one.

Then Hafslund, your question is very good and valid because 130 that we have there, that is the EBITDA to be consolidated gross effect. Of course, then when you do the cash flow calculation for us, you need to subtract the dividends that we were typically getting from Hafslund. And they have been, if I remember right, in the range of €10 million to €20 million, or something like that. It's all in the report.

And then when you do the P&L and EPS, then you need to take the minority result that we've been reporting. And that has been varying between €30 million, €40 million, maybe even up to €50 million per year. So, that needs to be taken into account. The 130 is just the plain blunt number on the expected additional EBITDA that will be consolidated going forward.

Markus Rauramo: And if I continue to specify a little bit. So, the €12 million you are referring to on page 17, that's the comparable operating profit number. So, then we come down from the EBITDA that will by depreciation and purchase price allocation, amortization. And on Hafslund, we, obviously, we did not report EBITDA earlier, so on the EBITDA line, the impact is poor. And then we get a minority stake on the following lines.

Sofia Savvantidou: Okay, thank you.

Operator: The next question is coming from Mikko Ervasti from BND Markets. Please go ahead.

Mikko Ervasti: Thank you very much and good afternoon. Regarding M&A, I appreciate your comments about the surrender cash flow and what is now replacing that and the acknowledgement that you need to do more, which I guess measures in hundreds of millions of new cash flow still. So, now I would imagine that building this Hafslund package has been quite time and resource consuming. It's a bit of a complex deal.

So, going forward, would you aim for large and lumpier deals, or do you prefer to do these kinds of partnership deals off in the future that perhaps give you the advantage over competition as well for these cash share deposits? That would be my first question. Thank you.

Pekka Lundmark: Okay, thank you, Mikko. The answer is actually quite simple. Both possibilities exist. You are absolutely right that this has been a time-consuming deal. We've been negotiating this for about a year now. So fairly complicated thing to do. But this is not the only thing that we've been working on. There could be more smaller things. There could be larger things. We are keeping our eyes open. You are correct that there is still a lot of

EBITDA and cash flow that we need to replace to get to the levels that we had in distribution. But of course, then once we get there, then hopefully we still have capital to spare so that we get higher.

Mikko Ervasti: Okay, thanks. And then secondly, I heard your comments about the emissions pricing. So, based on this confidence on the carbon market for the future, would you still consider generation portfolios that include also fossil assets?

Pekka Lundmark: We are ready to consider any types of generation portfolios. We are not excluding anything. I repeat what I have said earlier that hydro, of course, is attractive in all different scenarios that we have. But there could be different types of combinations of assets. And actually, if we are precise, I did not say anything about our own confidence on the CO2 price. I just noted that the market does not seem to have confidence, number one.

And number two, that European commission has an ambition to significantly increase the CO2 price. And we are supporting those plans, but we are not publishing in the way our own forecast. And of course, in all acquisition cases that we then make, then we put whatever is our own forecast on the CO2 price. We will put them into the models and see that what the effect is on different asset classes that there might be in the deal package.

Mikko Ervasti: Alright, thanks. And thanks for clarifying.

Operator: The next question is coming from Lueder Schumacher from Societe Generale. Please go ahead.

Lueder Schumacher: Good afternoon. Just one question from me. It's also on the €130 million of EBITDA contribution you opine. I mean, that's the number you will consolidate, but this includes heat on the 100% basis. So, how much of this €130 million of EBITDA is actually attributable to Fortum?

Pekka Lundmark: Yeah, we have actually in the material, we have opened that up to be helpful. So, on the market business area, you can see the EBITDA contribution in Norwegian kroner. And then we have the Hafslund Varme contribution. And then you can estimate, we haven't opened up the Kemetsrudanlegget EBITDA there. But obviously, then the actual contribution when we think about the minorities, then you can calculate from that roughly what is the stake that ultimately as a minority stake does not end up in our results or net profit.

Lueder Schumacher: So, you're referring to the numbers given in Norwegian kroner, if that's correct, in the presentation slides?

Pekka Lundmark: Yes.

Lueder Schumacher: Well, if we do this, and -so, that's for a FORTEX number. If you convert this into euros, this comes to €110, but if you then double the heat contribution to this, you get 156, so I wasn't quite sure if I was looking at the right numbers there. So, would you say the numbers in the presentation –

Pekka Lundmark: I think you can roughly look at the numbers, the Kemetsrudanlegget is about €20 million EBITDA. But that €130 million, that is 100% of combined heat and air. But that is 100% of that. That is the number that we will be consolidating. And then, of

course, the consumer business is the other part, which is then based on the current numbers. But, we are not going to give out any more details or estimates on this before the transaction is closed because there is still work to do on this side, and there are still details to be sorted out as to how exactly the integration will be done and how the different balances will be constructed.

Lueder Schumacher: Okay, thank you.

Operator: Our next question is coming from Vincent Gilles from Credit Suisse. Please go ahead.

Vincent Gilles: Okay. Good afternoon, everyone. Very simple question, or maybe not that simple, is on power prices in the medium term in Scandinavia. I mean, across Europe, the first quarter calls we've had with different companies, it seems that there is finally a trough being reached. Different regions, different problematic, but overall, a significantly more positive feeling. In your case, you very cautiously said don't expect too much.

But, what is reasonable, do you think, in the next 5 to 10 years maybe in your region in Europe in terms of power prices? What development should we expect? And I don't know, anything else you want to say on how you are going to help with prices getting higher in the future? Thank you.

Pekka Lundmark: The second part especially is pretty hard for our possibilities to effect power prices on the market. But, and again, we are not giving out forecasts. But when you look at the coming years, there are certain drivers that, of course, will be important. Coal price is important. And I commented that already. CO2 price definitely will have an effect. The

markets do not currently seem to be discounting them. But commissions target is that we would start to see higher CO2 prices from 2019-2020 onwards.

And most analysts seem to be having looking at models where €1 of ton CO2 higher price would translate into 60 to 80 cents per megawatt hour higher power prices roughly speaking. This is not our estimate. I'm referring to third-party estimates. But then, of course, one question is the demand-supply balance in the Nordic region. There is some capacity going out like Swedish nuclear shutdowns. There's some more fossile capacity going out as well.

At the same time, there is quite a lot of wind projects going on. And at the end of 2018, the Olkiluoto 3 is expected to come to the market. So, the net effect of all of this is a little bit challenging to estimate. And then there is the 0.5% expected demand increase. And then potential upsides to the demand could be from faster electrification of society, electric cars, electric heating, etc. Very, very difficult things to estimate as well.

And then, of course, one thing that will effect these big growing interconnections between the Nordic region and the large, central European and the UK markets. The capacity in those interconnections will roughly double by 2022 from the current 6 gigawatts to 12 gigawatts. And that will be quite interesting, for example, when Germany shuts down over 10 gigawatts of nuclear in 2022. And there are growing ambitions in central Europe to also decarbonise the electricity system.

So, there are also then scenarios where this type of development would increase the relative value of Nordic hydro, potentially having a positive price effect. But these are all,

I mean, there's a lot of speculation around this, and we are doing our models. But, we stick to the policy that we have that we do not give out our own price estimate.

Vincent Gilles: Thank you.

Operator: Our next question is coming from [inaudible] from [inaudible] Bank. Please go ahead.

Speaker: Hello. Thank you for to take my question. So, actually, my question relates to your stake in TGC-1. At some point, you was like mentioning the possibility to swap this effort. Do you have any like, can you - ideas that you can share at the moment? What's your plan about this TGC-1 stake? Thank you.

Pekka Lundmark: There is nothing new to say about TGC-1. We are keeping our eyes open when it comes to all our assets in not only Russia, but those in other countries. And if there are interesting ways to do asset deals, or swaps, or divestment or new investment, we are, of course, interested to do so. But, there is nothing new to say about TGC-1 specifically.

Speaker: Okay, thanks a lot. Thank you.

Operator: As a reminder, you may press \*1 to ask a question. Our next question is coming from Sam Arie from UBS. Please go ahead.

Sam Arie: Hello. Good afternoon, everyone. Thanks for taking my question. Actually, I had two questions. The first is a follow up on as to why the capital redeployment strategy? I think you indicated or heavily signalled at the year-end results that we should expect a significant transaction during 2017. And I see nothing over and above what you've

announced this week. Can I confirm if you're still, we should still have the expectation for a significant capital redeployment to come in 2017?

And then my second question was just following up on the power price discussion that we started just then. I mean, obviously, Olkiluoto coming on line affects expectations for power prices. I think they had signalled last year that the next phase of testing was due to start in early summer 2017. I just wondered if you know is that milestone still on track? Are you still expecting Olkiluoto on the timeline that was previously discussed?

And if it was delayed, given your sort of, you benefit on one side from potentially higher prices, on the other side from off state from that asset. How would you be impacted by any further delays on Olkiluoto? Thank you.

Pekka Lundmark: Oh, so sorry, can you confirm, what power plant were you talking about in the second question? I did not get it.

Sam Arie: Olkiluoto.

Pekka Lundmark: Oh, I mean, there's nothing new to say there. The target is that it would be ready by the end of 2018, and there's no new information. This has been the target quite some time now. And the first, we have not only one transaction. It's one possibility. It would be a larger transaction. We are now seeing Ekokem and Hafslund. We are looking at multiple different scenarios. We are actually coming from a long time ago that this capital redeployment would be completed by the end of 2017.

This is what we've indicated when the divestments were announced that there is a three year time horizon within the reinvestment. And that time horizon comes to its end at the end of 2017. But as I think I put it at the Capital Market Day that it's a general ambition level, but it's definitely not the promise. And if there are good making that would close after 31 December 2017, of course we are interested. So, it's not an end, a goal itself to do something by the end of this year.

But, it just is an indication that the management is having a sense of urgency with this issue. We understand that we cannot continue to live with the balance sheet like this forever.

Sam Arie: Okay, very clear. Thank you.

Operator: And now we'll take our next question from Dominic [inaudible] from Morgan Stanley. Please go ahead.

Dominic: Hi. Thank you for taking my question. Just one from me. I appreciate that today you aren't providing a specific synergy target for the Hafslund transaction. But will there be a rebranding or consolidation of brands intended within the market business? And if so, what do you expect the cost to be? Thanks.

Pekka Lundmark: That is a question that is genuinely open at this time. And since we are still two separate companies actually until the transaction has closed, we are not even allowed to plan this strategy, because we are, together with the Hafslund people, because we are competitors and we will continue to be so on the market until the transaction closes.

What I said yesterday in the information meeting in Oslo is that in the future world of consumer business, branding will be increasingly important, because we will see a broader scope of services and a broader way of packaging those services for consumers, and delivering those services to consumers than before. And that needs to be reflected in the branding strategy as well. And this is something that we will plan together with the Hafslund people. They know their customers best.

We know our customers best. And as soon as we are allowed, we will start a joint working group for the creation of the future brand strategy for this business. So, there are no decisions about that at this time. We will have a right to use the Hafslund brand for several years if we so want. And we will have, of course, a right to use forever the other brands in the group if we so want. So, all the possibilities are there. We will just need to put together the right strategy in the coming months.

Dominic: Very clear, thank you.

Måns Holmberg: And if we still take one more question from the lines.

Operator: There is no further question on the line, sir. So, I would like to the call back to you.

Måns Holmberg: Okay, thank you very much. Then thank you for your active participation and you can always contact us at IR anytime for any further questions. And if not, then we will hear you on the lines again on 20 July when we have our second quarter results. Thank you very much and have a good evening.

Pekka Lundmark: Thank you.

Operator: Ladies and gentlemen, that will conclude today's conference call. Thank you very much for your participation. You may now disconnect.