

**Fortum Oyj -Interim Report for January - September 2017**

**Speakers:**            **Pekka Lundmark, President and CEO**  
                              **Markus Rauramo, CFO**  
                              **Måns Holmberg, Acting head of IR and Financial Communications**

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Pekka Lundmark:        strength and our position, especially in the Norwegian market but also in the other Nordic markets. That was an important milestone which we reached during the third quarter. And then of course, an extremely important announcement was the transaction agreement with E.ON regarding their stake in Uniper.

We don't have that much news to say about that deal and that's why we are focusing on Q3. The only small new things that we can say today is that we filed the day before yesterday, our offer documentation with the German Financial Supervision Authority, BaFin. Now they will review it and once they have given their approval, then after that we will launch this offer. And we expect this to take place in early November.

On the regulatory approval side, we now have clearance from the authorities in the United States that has been taken care of. We have filed the transaction with the Federal Antimonopoly Service in Russia and we are working together with the relevant authorities in Brussels to prepare our filings over there.

This is what we can say about that deal at the moment. And, of course, we continue to repeat what we have said several times that we are, at any time, open to start dialogue with Uniper management; we've been ready for that all along. And what we understand from Uniper's management is that once we have published the offer document, then potential dialogue could start, at least not before that and so again we are looking forward this.

Then a couple of other very small things that I will not spend much time, but we are, of course, proceeding with other things in our strategy as well. We have invested over the past five years approximately €4 billion, Hafslund included, in clean energy, in circular economy in sustainable solutions for cities. And obviously, this is continuing. €4 billion is a lot of money that is now gradually starting to support our result. Some of it, a smaller detail during the quarter that you can see here. We are continuing to expand in e-mobility. We are the market leader in the Nordic region. We have over 1,200 charging stations now. We are moving towards home, charging as well and that's one important piece that we are expanding to India in the e-mobility as well. India has very ambitious plans regarding the electric vehicles and we want to be part of that development. India obviously, through our investment in solar, is one of our home markets.

We are growing in wind power both in the Nordics and Russia. No new announcements today but we are following the strategy that we have published earlier. And then the new services site, still a fairly small business today but now when we have 2.5 million consumers all together in the Nordic countries and Poland, the importance of value-added services and the development towards that we call smart living in homes with our consumers will continue to grow in importance. And during the quarter we find couple of very important deals regarding this segment.

Then into the quarter itself, we are pretty pleased with the results. We have a 39% increase in our comparable EBITDA and even a stronger increase in comparable operating profits. Of course, Q3 is always seasonally weak, and this year was no exception, but we are pretty satisfied with our performance. And also the general market conditions continue to show gradual, albeit small times of improvement.

The market conditions, the small improvement signs that I mentioned, one is that we had, in the Nordic region a 2.5% increase in electricity consumption, 82 terawatt hours versus 80 terawatt hours in the third quarter last year. Prices are slightly up, as you can see here. Nordic spot price

was €28.50 versus €25.20 in the quarter, and also the area prices, both in Finland and Sweden, were on a higher level than a year ago. CO2 prices are slightly up, I'll come back to this one in a second. And then in Russia, small increase in their electricity consumption, 235 versus 231. And then when it comes to electricity prices, there's more drop in spot prices, 4%, mostly driven by the unusually strong hydro production in the country in this quarter.

When it comes to hydro production in the Nordic region, obviously, what we are following closely is the water reservoir levels and they are pretty close to a normal level at this stage. Remember that both in Q4 last year and Q1 this year, we suffered from especially low hydro production. Now the outlook is from that point of view better that the levels – the reservoir levels are very close to normal, which then, of course, in comparable terms is looking good for Q4 when we expect that how much we'll be able to produce from our hydro power plants in the Nordic region.

Commodity deck is also looking slightly more positive. Coal price has increased from roughly \$60 to \$80, \$60 about a year ago. This has been driven by Chinese coal mining policies where they are closing down old, inefficient and polluting mines and consequently increasing coal imports. And also the Chinese economy is boosting global coal prices at the moment.

European gas, if you calculate, per megawatt hour has grown from 13 to 16 on the back of unplanned Norwegian outages, strong Asian LNG prices and a 50% rise in Chinese LNG export – imports, apologies. So these are the factors behind the fairly strong gas price development as well.

And then the interesting which is, of course, extremely relevant to all of us is ETS. There is now a small improvement in the price. It's now above €7. It was below €5 just some time ago and now the market seems to be discounting expectations about a successful outcome of the ongoing negotiations, tri-party negotiations, with an objective to renew ETS' demand, for example, significantly strengthen the market stability reserve. And when you look at what's the different –

analysts are predicting about the consequences to the emissions prices, they would all agree that if this goes true, as is quite likely during Q4, that this would start supporting the ETS prices for 2019 onwards. And again, you cannot, for this then, the rule of thumb that – what is the connection between ETS and Nordic electricity price. There are a lot of variables that affect this equation but the most commonly used by the analyst rule of thumb is that the one euro activity as prices is something like 0.80 in electricity price. So there's a lot of variables that play into this, so it's hard to give a hard number, but that's probably the right ballpark.

Power price development has been encouraging actually for almost two years now since the very low levels in the middle of 2015. The spot prices have been moving around on the system level, moving around €30. But in addition to that, very important to us is, of course, is that when you look at the recent development, last, say 12 months, development in the forward prices for 2018, 2019 and 2020, we are in some cases looking at, 10 euros, higher prices than the situation was still 12 to 18 months ago. So there is clearly now improvement in the market outlook when it comes to pricing.

And here you have a summary of – both the market prices and achieved prices. Spot price, year-over-year Q3, was up 13%. Our achieved price in our generation segment in the Nordic region was up €1 to €32.60 – no, sorry, €32.50, it's up 3%. And of course, the reason is the hedges that we had, which then of course dampened the sudden movement in the price. But thanks to the hedges we've been able to maintain the achieved price fairly stable, albeit historically still on a rather low level.

On the Russian side, as I said the spot price was a little bit weaker in ruble terms, than a year ago. But then when we calculate in the total price that we get, including also capacity prices, and when we translate that, all into our reporting currency, euro, we are looking at 5% higher achieved price compared to a year ago.

Here you have as a summary still the key figures, sales up strongly from 732 to 919 for the quarter. This is thanks to higher prices but very much also the consolidation of Ekokem, and also partial consolidation for the quarter of Hafslund. Hafslund was there, only for 2 months of the quarter, so it's still very early stage.

EBITDA strongly up, as I said, 39% comparable operating profit also up. And then what is very important is cash flow. And we will be focusing now when – through the Uniper investment, our so-called phase one will come closer to its conclusion. You remember that phase one, to us means the allocation of our balance sheet in order to create a company that has a strong cash flow so that we can both invest into the future and its system, and pay competitive dividends. Now when this phase one is coming closer to its end, it of course means, that we will be very much focusing on the cash flow that this company generates. And for this purpose, Q3 was actually quite encouraging. Operating cash flow €185 million versus €101 million a year ago.

Quick comments for each division before Markus zooms even deeper into certain numbers. Generation first, good quarter EBITDA, 134 versus 104 last year. This was driven by higher hydro production and also a higher achieved price. What then dragged down the result was about 1 terawatt hour lower, nuclear production compared to Q3 last year. And this is because of Oskarshamn 1 now being down permanently and also Oskarshamn 3 outages or the timing of the outages, which were now in relative terms more weighted towards the third quarter than last year. So the combined effects of these two was the 1 terawatt hour lower nuclear production.

The Swedish authorities have published the proposal, as we expected that they would do, a proposal for new approach to waste fees which they always do in a three-year cycle. It is not a decision yet. It is now a proposal. And should this proposal be approved in its current form, it would mean an increase of approximately €8 million per year to our cost. This of course might be then looked into, in relation to the earlier decisions which were made in Sweden, where both the nuclear capacity tax was taken away and then the property tax for hydro was significant – or will

be significantly reduced operating profit effect of these two being €180 million per year. So this would be €8 million negative and the previous one was €180 million positive per year.

So all in all, a good quarter for the generation business. For City Solutions Q3 is always very weak. City Solutions makes its money in Q1 and in Q4. Now, EBITDA is supported by slightly colder weather and then the integration of Ekokem into the numbers. So €21 million EBITDA versus €5 million last year, but then because of the depreciation and now also having the Ekokem depreciation in the P&L, comparable operating profit is strongly negative, as is typical in Q3.

In the Consumer solutions, which now is in the middle of a fairly big Hafslund integration, we are moving from 1.1 million consumers to actually – 2.5 million consumers is the very latest figure. We are not at all satisfied with this profitability level that we have in this business. This business has some structural margin pressures that we don't believe that will go away. In the short term, it has to do with the increasing role of automated tools that enable price comparisons and it affects the competitiveness of the different products.

This shows how important the Hafslund deal is for us because Hafslund now gives us the critical mass, 2.5 million consumers all together, to be able to afford an investment into product development and into backend IT systems that will be even more crucially important in the future than they are today.

So bear with us. This will take time. We are putting money now into development at the same time when margins are under pressure. But this is the only way. Putting money into development in this business is the only way to take care of your future competitiveness. But the message to you investors, once again, is that we will be working hard to improve the profitability of this business. We are not happy with these levels that we're seeing today.

What we are happy with, is the performance of our Russian business. We have a higher received CSA payments, we have a change in the heat supply scheme in Tyumen, where we are now acting as the responsible heat system operator, which gives us a good position to develop the business further. And on top of this, on a cumulative basis for this year, we have a strong improvement in the Russian ruble, which gives us a €30 million additional result improvement through Forex.

And the combined effect of all these is then a comparable EBITDA of €61 million for the quarter compared to €43 million last year and the operating profit of €26 million versus €12 million last year. Of course, also in the Russian business Q3 is seasonally weak, but when you look at the cumulative numbers, you can see that we have moved from 212 in 2016 to 317 in comparable EBITDA, which is a really strong improvement.

Now, I finish up here and Markus will continue. And then after that, we are ready for your questions.

Markus Rauramo: Okay. Thank you, Pekka. So I'll summarise shortly. Q3 Generation, City Solution and Russia improving clearly. Then heavy investment in Consumer solutions and other technology new ventures, new businesses into our future, also the margin pressure in Consumer solutions. So altogether, a clear improvement on a year-on-year basis.

Same picture holds for cumulative, from Q1 to Q3 compared to last year, with the exception of Generation where the hydro volumes, as you saw from previous pictures, were low in the beginning of the year. So in bigger picture, City solution and Russia performing well, in Consumer Solutions investment in the future and margin pressure. Of course, we do expect the in Consumer solutions and other, that these investments will also start to then yield results going forward.

A couple of remarks on income statement and cash flow statement. One thing that's noticeable and that we can feel a lot in the organisation is that the top line is growing. Sales are growing in Q3 on cumulative basis in the last 12 months versus 2016. It is due to our investments, due to our acquisitions, due to the integration. So lot of hard work has been done in the organisation and that is paying off.

In the left-hand column, in Q3, some other noticeable items are the Hafslund. So some items affecting comparability. And then we have the finance cost increase that is due to the acquisitions facilities for the PTO of Uniper shares. The last thing I'll note here is on the cumulative Q1 -Q3 income tax expense, so that's where we actually did book the Swedish income tax case.

On the cash flow side, very strong growth in EBITDA. So the same that we see on the top line impact, we actually see in increasing EBITDA. On the trade financial items and taxes, the impacts of the acquisition profitability is there. We have positive development in working capital less receivables, some cash settlement of the hedges with futures.

And then what I think is clear is that we have spent money on CAPEX, we have been active on the acquisitions on the divestments, we can see the Hafslund transaction impact on acquisition shares, divestment of shares. And then in the earlier period, the impact of Ekokem acquisition and Duon acquisition. And that goes to the same theme as the short term. In the long term, we have been investing in CAPEX, not on the OPEX but CAPEX and the acquisitions, investing into the future. And that's always been in the bottom part of the table.

Cash from operating activities last 12 months and the Q3 this year versus last year, good, strong improvement.



Going into the debt portfolio and debt financing, we continue to have the low average cost of debt, especially in euros and Swedish krona. Our market conditions are, of course, very good for borrowers, so I would estimate that this will work to borrow new money now. Depending on the maturity that would happen at around 1% to 2.5% depending on the maturity. Our position in the market seems to be strong, so financing is well available for transactions and investments.

The one issue that we noted in the course of the release is that not only did we have the acquisition facility in place, we also syndicated this facility further to our relationship banks and that happened at very competitive and attractive terms.

And for these key debt indicators, net debt to EBITDA stands now as 0.9. Our target needs to be at around 2.5 times in order to have an efficient balance sheet, efficient use of capital. With the announced transaction to purchase of Uniper shares, our net debt to EBITDA would go to around 3.5 times. If we look at how rating agencies, typically, would treat it on proportionate consolidation basis, the number would be around 2.5 times, which is our target.

Our liquidity situation is very good, and we have €3.9 billion in liquid funds; that is in cash and short deposits. On top of that, because of the PTO rules, we have to have full financing available for a full acquisition of all the shares in Uniper. So that also is in place.

Then finally for the outlook, we continue to forecast 0.5% growth on average in electricity demand. I think the signs both in GDP development in our core market, as well as the electrification of all aspects in our society continue to support this and even stronger. Appliances, electric mobility, data processing, the amount of data being processed, all of these is pointing to that electricity will – to take cost on market share and, of course, the positive GDP growth and underpins this development.

Our CAPEX estimate for the year continues to be the same, €800 million, which of maintenance is CAPEX, is €300 million, so heavy investments this year into growth. Hedging levels for the rest of the year, we have hedged 65%, that's €30 per megawatt hour, next year at 50%. So half is hedged. That's €28 and this is the first time we show this 2019, to which level was 30% hedged at €24 per megawatt hour. So very similar profile that we had when we started first the report, the 2018 levels.

For the tax rate, the tax rate – effective tax rate for this year should be around 20%. And also going forward, positive development that we have earlier communicated already. In Sweden, the reduction of nuclear taxes which will go to zero by 2018, and then the hydro real estate taxes that would gradually decrease to a level of 0.5% by 2020. That impact will be quite significant combined. And then we have the positive ruling in our favour for the hydro real estate tax from Sweden; that is only applicable to parts of our company. So this supplied to our all Fortum companies and that will be larger though the tax authority has appealed to this. So, all in all, a solid outlook.

I'll stop here. And I think now it's time for questions and answers.

Speaker: Yes. So now let's move on to questions and answers. Let's first see if we have any questions here from [inaudible] audience. Since we don't have then, let's move over to questions from the lines. Operator, go ahead.

Operator: To ask question over the phone, simply press star one on your telephone keypad. We'll take our first phone line question from Keilaniemi from Credit Suisse.

Speaker: Hi. Good afternoon, two questions for me. The first one is on your 2017 dividends. Should we assume that you revise your dividend on all Fortum – I mean, 1.1 per share or portion you [inaudible] to? And my second question is on Uniper deal. Did you have any conversation

with other shareholders in Uniper? And if yes, how confident you are that you will be able to get the agreement? Thank you.

Pekka Lundmark: If I take the second question and Markus takes the dividend question. We are just focusing on the E.ON stake. That's the only deal and the only discussions we have had. We are now getting ready to publish the offer documents and then every shareholder will need to make their own decision. Markus?

Markus Rauramo: On the dividend question, when it comes to 2017 dividend, that is going to be decided by our board, at the time when that becomes topical. So then the board is evaluating the circumstances around that. So far, we have been paying the €1.1 dividend, based on our balance sheet capacity, and we are willing to support a very stable dividend. And then when we look beyond 2017, and look to next year, capital redeployment, as we have done and that we are now contemplating, of course, for these measures, are intended to support our dividend payment capability. So I would think that it is moving to the right direction from that point of view.

Speaker: Thank you.

Operator: We'll take our next question from the phone. Sam Erry from UBS. Please go ahead.

Sam Erry: Hi. Good afternoon. And thank you for the presentations and congratulations on a very solid set of results. I find your comments on power prices and the forward curve are very helpful, but my question is, if you could just explain a bit more about what is actually your house view going forward on power prices and carbon. And whether you see fundamentally more upside for underlying power prices from the current levels. And whether you think expectations of €20 to €30 carbon price in the next few years, which we think in the markets are realistic. Thank you.

Pekka Lundmark: Thank you. That's, of course, an extremely good and relevant question. But unfortunately, as many of you remember, we have a policy of not publishing what our forecasts are, so we can only comment on a general level what the drivers are. And, of course, the underlying driver is the overall demand and then we continue to believe that it is 0.5% growth per year, which in the Nordic region would mean roughly 2 terawatt hours some more demand per year.

Then there is some capacity going out, like Swedish nuclear shutdowns. The Ringhals shutdowns in 2019 and 2020. Olkiluoto 3 Finland going to the opposite direction of these two, roughly compensating each other. And then there are some other announced either shut downs or any of the other new builds as well. And this will then determine the demand-supply balance.

And one thing that will affect the situation is the growing interconnections between Nordic region and the Central European region. Interconnections will roughly double between today and 2023, from the current level of 6,000 megawatts to roughly 12,000 megawatts. This will be quite interesting because this happens roughly at the same time, timewise where nuclear will be shut down – 11 gigawatts of nuclear will disappear from Germany.

And then while in many European markets, the pressure to phase out coal will increase. So this will create quite interesting dynamics and we believe that this will have a possibility to support the value of certain Nordic, especially hydro type of assets – as balance power offered to the large European market.

Then EPS is a big fundamental – we don't publish our forecast, but when you look at what consultants are forecasting, there are big differences between them. And they all agree that the prices will go up. The European Commission has been openly talking about targets like €20 or €30 per megawatt – €20 to €30 per tonne, but there is no direct connection between the mechanism that is currently being planned and how to get there. So this is – there is still unclarity

about this thing and that's why the spreads are pretty big, that's how much the different forecast differ from each other. But the rule of thumb, as I said, is the Nordic price, is that €1 in ETS is, according to most analysts, €0.60 to €0.80 per megawatt per hour.

And then, of course, the final thing is then what the commodities will do and coal prices have been quite strong recently. And they're also depending on how much the coal will be in the margin in the future, they will continue to have a direct connection to the power price level as well.

Overall, most analysts believe that after 2019/2020, there would be an increase in power prices. Then there are big difference in their opinions as to how steep the increase would be. We have got our own investment case but that we do not publish.

Markus Rauramo: And one further remark, just to kind of market data point. Of course, we have now the hedged levels that we have historically built over time. Today's growth, the 2018 helsink price is 30 the Stockholm 29 for 2019. So clearly, higher levels than we have hedged 19. So we have been building the portfolio up at clearly lower levels than where we are today. So I think that gives us a bit of in a way, confidence in that – the market is more solid than it has been out historically over the last three years.

Pekka Lundmark: Yeah, as I have said earlier, the market looks much, much solid now than it was a year and a half ago.

Sam Erry: Thank you very much. I agree with that and those are actually very helpful answers. Thanks for talking it through.

Operator: Our next question comes from the line of Lueder Schumacher from Société Générale.

Lueder Schumacher: Good afternoon. Yeah, a couple of questions from me. The first one is on CAPEX. You said that the estimate for the full year is above €800 million. So do you think about this as the peak in your CAPEX cycle? Obviously, excluding Uniper, I should [inaudible] the Fortum CAPEX come down from this level? And if so, what kind of level do you have in mind sort of three years out from that?

The second one is on the tax rate. You said the effective tax rate should be around 20%, which is your normal answer. I would have thought that with the book gain you are showing in 2017, the actual rate we're going to see in the P&L should be below that?

And lastly, you mentioned 3.5 times net debt EBITDA post acquisition of the Uniper stake, I guess that's 2019 and the proportion and the numbers you're referring to.

Pekka Lundmark: That is correct. If I understood your question right – Markus commented about the multiples and the net debt to our EBITDA multiples, they were referring to the only agreement that we currently have, which is the E.ON.

Markus Rauramo: That's right. So this is in a way, a run rate number. So if you annualised the impact, this is what it would roughly look like. And, of course, this outcome depends on what is the amount of shared standard, consolidation, etc. etc. But I'm referring to exactly that transaction that we have said, that we are focusing on.

Pekka Lundmark: And then as a follow up, regarding your CAPEX question, obviously, €800 million is a pretty high CAPEX. It includes €500 million growth CAPEX. We have not yet guided for next year's CAPEX. You will get an idea – if you look in the report that we published, there is a list of all on-going organic construction projects that we have. So from there, you can get an idea. But I'll just say one thing that obviously, before we know the outcome of the tender offer of Uniper, we

will exercise pretty high level of scrutiny when we talk about any new capital allocation decisions. We do want to see the outcome of this offer first.

Markus Rauramo: And with regards to the effective tax rate, over time, I'm very comfortable with the 20% tax rate. That said, there will be volatility and then the outright tax rate that we calculate from the P&L, that will be (inaudible). When we take, for example the associated income, the taxes are already included pre the net profit. So you have to dig in to the numbers a little bit. But if you ask specific questions, I'm always happy to go through the numbers. But ultimately, when you clean up and when you just look at the underlying performance, it land us very close to 20% overtime.

Lueder Schumacher: Okay. And sorry, just one follow-up question on the CAPEX. The projects you referred to, I believe, they come to an end in 2019. So would it be sensible to assume just your maintenance CAPE€300 million from then on or from standalone?

Pekka Lundmark: In the absences of any new decisions, so that is correct, yes.

Lueder Schumacher: Okay. Thank you.

Operator: Our next question comes from James Brand from Deutsche Bank.

James Brand: Hi. Good afternoon. I have some questions actually just on the CSA payments in Russia. I was hoping if you could quantify a little bit kind of the move the movements from here. You mentioned in the statement, if you would – perhaps that it could affect them. So the linkage with the 10-year bond yields firstly. The second, the ability of the regulator to review the earnings from the electricity markets after three and six years. And thirdly, the step up from the seventh year of the ten-year period that you will receive those payments for. I was wondering whether you could give some quantification across the three of those, what your expectations are.

Obviously, on the bond yield side, bond yields have – eight and ten-year bond yields have come down by about a percent over the last year. So I was wondering what a negative impact that that might have. What do you expect to the regulator to be making any adjustments around the three and six-year review? And finally, if you could quantify the step up that will come in the seventh year. Thank you.

Markus Rauramo: I can comment on that. You're very correct that these are the main factors, the bond yield inflation, the spot price adjustment and the profile. So what happened in this quarter is that one-year impact was negative, inflation impact on that very small negative. And then we – what you refer to as the regulator's assessment on the spot market happening three to six years, that was positive. So – and you can also see it away from the spot prices in the charts. Spot prices come down and the compensation for that would go up.

The biggest single item was then profiles that we referred to. So the CSA payments are higher for years seven to ten on each of the units. Now, the first unit seems to enter that phase. And that is a significant increase in the CSA payment, it's tens of percentages in the CSA payment. And now, over the coming few years, our different blocks will enter that phase. So in the absence of any other movement, you can expect that the CSA payments will go up for a number of years now.

James Brand: Could you give any indications to the percentage uplift that comes in that seventh year, on average, across your portfolio plans?

Markus Rauramo: I would say it depends. So we cannot give one single number, but it's several tens of percent on the CSA payment. And the formula is extremely long several rows and complicated, so there are many moving factors. But this is, let's say, the most single determining component there.



James Brand: Okay. Thanks.

Operator: Our next question comes from Peter Jaeger from Bank of America Merrill Lynch.

Peter Jaeger: Yeah. Good afternoon. Just two questions from me on the Russia, again. There's a story yesterday suggesting that the Russian anti-monopoly services had some concerns around the unit per transaction. I'm just wondering if you can elaborate what, if anything, you have heard on that front. And my second question relates to district heat tariffs in Russia, I was wondering if you could explain a little bit more what's been happening there. They seem to have – well, certainly your heat revenue seems to have increased quite nicely there on a unit basis. And also something – what sort of trend we should expect for future years?

Pekka Lundmark: So Markus will take the district heating question. That will obviously depend on what – on how the so-called heat reform will proceed in Russia. When it comes to the anti-trust process in Russia, we see this as pretty normal and the expected part of the process that generation capacities and the generation numbers are fairly well-known. And we expect to have a constructive dialogue with the relevant authorities.

When it comes to market shares, it's always in cases like this, it is the discussion about what is the right definition for the relevant market, whether it's one city or a wider area, price area, or even the whole country. And we are confident that we will be, through a good dialogue, come to a solution that all parties can live with. So we see that this is part of normal and expected process in Russia.

Markus Rauramo: And then with regards to the district heat tariffs, so we have certainly seen some improvements. So there is some positive contributions from our district heating business. But really, the big issue is that we need to see the heat reform happening and there would be very many positive impacts from that; one, efficiency on use of fuel, and the quality of the networks.

So I would say, in the big picture, the situation is still that district heating part covers its cost. And our business – really, the business case is still the electricity.

That said, the upside is cost there still, with our district heating volumes, we will get back to the same level of City solution. I think that will be significant but we are not there.

Pekka Lundmark: In general, the heating business in heating district 1 where we are, it is – we are now thinking we put that into the category of potential future upside, which is not certain. But we are hopeful that reform will proceed in Russia in due time, which would then create possibilities for higher returns.

Peter Jaeger: Had there might be any sort of further developments on heat reform discussions in Russia? Or is that very much sort of a post-2020 story?

Pekka Lundmark: Well, they are at – yeah, 2020 or something like that. It's hard to say. They are now – they have made a decision to pilot, in a way, deregulated heat markets in a couple of cities and our cities are not part of that pilot.

So we are following with great interest the pilot. Doing that, we are proceeding with this in a way partial reform of the coming heat system operator in both in Tyumen and Tselyabinsk. Already that gives us possibilities for performance improvement because we will be in a better position to plan from a holistic point of view. That's how the whole heat network is to be operated in the best possible way. There is a lot of inefficiencies in these networks, and now we will be a good position to improve efficiency already before we will know that what will ultimately happen with the heat market deregulation.

Peter Jaeger: Okay, thank you. Thanks very much.

Operator: Our next question comes from Javier Garrid from JPMorgan.

Javier Garrid: Good afternoon. A couple of questions, if I may. The first one is on your leverage. You mentioned that you (inaudible) 2.5 times net debt to EBITDA if the Uniper stake were to be proportionally consolidated. Is this target leverage ratio going to be in the review, depending on the quality and the structure of the assets and liabilities of the company? What I mean is, Uniper itself have a lower leverage target? Is this going to be taken into consideration in the future even if you only acquire the stake from E.ON?

The second question is on taxes. You mentioned that you are going to benefit from a €180 million reduction in generation taxes, nuclear and hydro in Sweden. What is your expectation or have you have any dialogue with the Swedish government about those taxes coming back to where they were, if we see an uptick in power prices linked to higher CO2 prices or linked to drivers? Is there any debate or any kind of ongoing discussion about when and to which level these taxes could come back? Thank you.

Pekka Lundmark: Yeah, I'll take the first question and Markus will then comment on the Swedish taxation. Look, as we have said, we are focusing on the E.ON stake and we are looking at that as an investment. So it would be entirely premature and also inappropriate from our point of view as an investor to go into details of the qualities of the various assets in the company. We look at that 38 gigawatt portfolio as one portfolio that we are investing in.

And what Markus was referring to earlier is then the potential way the rating agencies would be looking at our key ratios when they evaluate the credit ratings for us and related net debt to EBITDA levels.

Our target level is 2.5. And as we have said several times, we have been below that, which means that we want to invest if we would go above that. Then over time, we would hope to be

able to produce good cash flows so that we would be able to deleverage over time. But this 2.5 is not a whole target that we need to be absolutely there. It's always a lot of different circumstances that play into this. But that is kind of the general long-term target that we have.

Markus Rauramo: And with regards to the tax situation, so I think we have in our hands in the whole of Sweden a real structural problem with these kinds of tax levels that there were. So, this started to threaten the waste oil production, and these were, in a way, heavily jeopardising the future of the most renewable production of hydro power and risking also the flexibility. These are the real long-term structural issues that the Swedish government then ultimately has to address; what is it that is wanted in the long term?

So I think what – we, of course, totally expect that these were made with a long-term vision and with a commitment that when we then have to do necessary safety investments and so on, we have payments times that are very long. And that needs to be (inaudible) on these account. Of course here, we can all act as a united front, and demand consistency and long-term thinking from decision-makers. So we do expect that this government and future governments will remain steady on this issue.

Pekka Lundmark: One thing that is perhaps comforting there is the risk that really as discussed this was a wide parliamentary agreement that was made. So it is not only a decision made by the current government but also most of the opposition was and continues to be committed to this, and that, of course, gives us long-term comfort.

Javier Garrido: Okay. Thank you.

Operator: Our next question comes Arlen Beliski from SEB.

Arlen Beliski: Yes, this is Arlen from SEB. Actually, two questions from my side. So, first of all, starting with Nordics and hedges issued for 2019, could you maybe provide some further colour on price level there? So has there been, for example, a bit less of area hedges compared to system hedges and maybe differences between Sweden and Finland compared to the normal generation mix, what you're having? And the other question is relating to Russia. Could you maybe comment if they're having some sort of plans meet them, so maybe upgrade some of your capacity, what you're having in the region, and potentially getting some CSA payments or so on from there? So, yes, those are the questions.

Pekka Lundmark: Okay. Thank you. I'll take the Russia question and Markus will comment on hedges. Of course, we know that the assets that we have in Russia that are subject to CSA payments, there will be a time when these payments will end. Then, at that time, these assets will be receiving, in a way, normal so-called CCS, i.e. competitive capacity selection payments through a normal auction process number one. And number two, spot prices for the electricity that they sell on the market. And, of course, nobody knows how the market balance will look at that time and how the capacity balance will look at that time.

One interesting observation is that the prices for the latest two auctions in the competitive capacity selection, a completely transparent and open process that takes into account the market demand-supply balance, they seem to be recovering now, when you look at early 2020. So we may be getting some support from there going forward.

But having said that, the CSA will go away, and that's why it's very important for us that we – in addition to CSS and spot prices, that we get something instead. And this is the key reason why we are now participating in this wind build-up project through our joint venture with Rusnano. This joint venture recently won a license to build up to 1,000 megawatts of wind in Russia over the next years, if wind power plants will be receiving CSA payments for the next 15 years on pretty good levels. Depending on the factors that we'll be receiving, we're estimating that we'll be

getting €150 and €235 per megawatt hour CSA payments for the period of 15 years. So this is a pretty interesting and attractive way of partially compensating them and what we will lose for the CSA in the existing assets.

Markus Rauramo: With regards to the hedges and area prices, I think you're right, on the right track with your question that, historically, we may have had fair bit of variables in the area price hedged levels. Obviously we just give this number, so we don't disclose what we have done in the different areas. But I would categorise it so that it's a fairly balanced portfolio and now that we have behind this price. Of course, that continues to live – and I refer back to – where the prices are today, so clearly higher than these levels. So I would say that we have potential here with this number.

Pekka Lundmark: If you ask if we're happy with this 24, of course, we are not happy. But it's good that it's only 30%, so there is still 70% to go.

Arlen Beliski: Okay, very clear. Thank you.

Operator: As a reminder, it's star one to ask a question. We'll pause for a brief moment to see if anyone else is trying to signal.

There are no further questions in the queue. I'd like to turn the conference back to our host for any additional or closing remarks.

Speaker: Okay. Thank you very much then for your active participation. And also I hope to see many of you then during our road shows in the next coming two weeks. So thank you very much and have a nice afternoon. See you on the road. Thank you.

Markus Rauramo: Thank you.

Operator: Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.