Ingela Ulfves: Welcome to all of you. Those of you who are here with us at the Headquarters in Espoo and those of you who are listening online. We’re happy to host a joint webcasted news conference on Fortum’s second quarter results here today. Please note that this event is being recorded and a replay will be available on our website later on today. My name is Ingela Ulfves and I’m the Investor Relations Head at Fortum. With me here today, I have our CEO, Pekka Lundmark and our CFO, Markus Rauramo as well as Måns and Rauno from our IR team. Pekka and Markus will start by presenting Fortum’s second quarter numbers and performance after which, we will open up for questions and answers. You can also ask questions on our webcast chat. I now hand over to Pekka.

Pekka Lundmark: Thank you very much, Ingela. Dear investors, welcome, welcome to this Q2 conference. Of course, the second quarter is typically for us seasonally weak, as is also the third quarter. We make our money in Q1 and Q4, but I have to say given the fact that Q2 is typically weak, we are very satisfied with our performance in this quarter. We have of course 40% higher comparable operating profit than a year ago, which is a good achievement of course given to large extent by the strong fundamentals in that market. Our price development has been pretty good throughout this year. Q1 was characterized by cold weather. Q2 was characterized by unusually warm weather, which is then for example reflected in the city solutions weak result in the quarter. But overall, 29% improvement in comparable EBITDA and, as I said, 40% improvement in comparable operating profit is a reasonably good result for this quarter. Earnings per share, 24 cents, but there it’s worth noting that there are 11 cents of items affecting
comparability related to the divestment of our hydro stake, minority stake in Norway, which I’ll come back to in a moment. If you take that away, the operational EPS would have been 13 cents for the quarter. In comparison, this is a little bit more complicated then, but if you want to kind of reconstruct a similar operational profit EPS for the second quarter last year, you would need to take away the items affecting comparability and then the one off for the Swedish tax ruling in Q2 last year and you would get ten cents, so that’s one way of kind of trying to reconstruct the big picture for the quarter in terms of EPS; from ten cents to 13 cents this year.

We have been talking quite a lot about balance sheet discipline and I’m happy to report and I will go into details in a second that we have actually done quite a lot of those things already in the second quarter, that we talked about in the previous conference. In terms of improving our cash flow, strengthening our balance sheet, also looking at some potential divestments.

In regards to Uniper, and I’m sure that you have a lot of questions, I’d now like to take a moment to just quickly touch on the status and our ongoing discussions with the company. As you know, on the 26th June, we closed our public takeover offer and thereby becoming the largest shareholder in Uniper with a 47% stake. This process was clearly not without challenges. But to be clear, these challenges have by no means altered our long-term view towards Uniper or our intentions as the largest shareholder. And as I have actually said since we first announced our intention to invest in Uniper, we intend to be a committed, long term and active partner to the company. Our objective remains to collaborate with Uniper in order to create value for both companies and all stakeholders.

Now to make this a reality, we are actively working to reset the relationship with Uniper. Since the closing of our public takeover offer, we have re-initiated talks with Dr. Reutersberg, the Chairman of the Supervisory Board of Uniper and Uniper operative leadership. We have proposed Fortum CFO, Markus Rauramo, to join Uniper Supervisory Board and we are currently
working with Uniper in relation to this appointment. We are confident that Markus would be an excellent and valuable member of the board and an ideal replacement for Mr Speaker who represented E.ON in the Uniper Supervisory Board.

Of course, to fully unlock the potential value of our collaborative efforts, will require more than just discussions. This process clearly won’t be finalized overnight, but it is our objective to make good progress in a timely manner and we will of course update you as and when appropriate. I would also like to address market noise and questions we have heard in relation to further increasing our stake. Quite simply, the Russian regulatory decision limits our ownership to up to 50% of shares in Uniper. Therefore, all such questions are hypothetical, and, as you know, we will not speculate. That being said, let me reiterate once again. We are pleased to have become a committed long term and active shareholder in Uniper, and our focus is very much now on delivering the value potential of this transaction.

Then I would like to move to a completely different topic, which I already briefly commented in my introductory notes, and that is what we would call capital recycling in our renewables business. In June, two important things happened in India. First of all, we agreed to sell 54% share of our solar power company, operating four solar power plants with the capacity of 185 megawatts. We sold this share to two investment funds; UK Climate Investments and Elite Alfred Berg 40% and 14% respectively. And Elite Alfred Berg has the option to an additional 16%, which means that we are prepared to sell – divest 70% of our holding. And the purpose of this is to free up capital for further investments and that way enable us to continue to utilize our key competencies that we have developed in India. We have an excellent team there that would be capable of building much more than what we currently have.

The value of the divestment is 150 million and that will result in a positive impact of about 20 million euros to be recorded in the third quarter result. And as I said, we want to free up capital
for further investment, so the next step forward immediately after this, we want the right to build another 250 megawatts of solar power in India. This capital expenditure is slightly smaller than the amount of capital that we are now freeing up. It is about 120 million, with commissioning expected in 2019.

Then moving on to Russia; in June, we won right to build 110 megawatts of solar capacity with a guaranteed power price, which roughly corresponds to 40,000 Russian Ruble per megawatt hour, this would be – and now we need to be careful, this would be – with today’s exchange rate, roughly 191 Euros per megawatt hour, but what matters is the Ruble amount.

We communicated some of these numbers before. We had fairly conservative assumptions regarding some of the parameters that affect this calculation at that time. This is now our latest assumption with the current understanding of the parameters, and as I said, including the current exchange rate.

The Fortum-Rusnano 50-50 wind investment fund also during quarter won the right to build another 823 megawatts wind. Also, here, we believe that this is a good deal for a fund. The price, if you calculate per megawatt hour will obviously depend on the actual realized wind conditions and the load factor, but it’s somewhere around 7,000 to 8,000 Rubles per megawatt hour, which would today’s exchange rate correspond to 96 to 109 Euros per megawatt hour. These tariffs including all except for solar are valid for 15 years, and these wind farms are expected to be commissioned during the years 2019 and ’23.

We have previously announced that we are planning a maximum equity commitment of 15 billion Rubles and from there you can pretty easily calculate that to be able to do all this including the earlier announced 1,000 megawatt license to build of course requires, first of all, that all funding must not come from equity. There will be Russian local debt funding for a significant part of this.
And in addition to that, we are planning similar type of capital recycling as we would call it, the adjustment – through for India. The interesting thing is that we believe that these are good tariffs we have – we are building a good industrial machinery for both wind and solar and with this type of tariffs and the 15-year time horizon or course, then gives us a lot of optionality as to how to manoeuvre our actual exposure in the future.

Another important step in the quarter was the divestment of the 10% non-strategic minority ownership in Norway, in Hafslund Produksjon. We are satisfied with the outcome, we get a sales price of 160 million Euros and we will record a capital gain of 77 million, or did record a capital gain of 77 million in the second quarter, which corresponded to this 11 cents per share that I said earlier.

Our intention is to continue to focus on our balance sheet of course through the Uniper investment, we are significantly more geared, which is the reason for added discipline in our new investment decisions. We are also looking at possibilities to – as now this Hafslund Produksjon case shows to potentially divest some less-strategic holdings and a pretty high degree of scrutiny will be exercised when it comes to new investment decisions, because, obviously, our goal is to keep investment great in all circumstances.

Then when we go further in the market environment, of course, what is always important is the hydrological situation. And now, as you may have noted, it has been extremely dry. The orange line here represents 2018. In the beginning of the second quarter, there was quite a significant deficit in the Nordic water as it was. Then we got, after a cold winter, a very sudden spring and the snow melted extremely quickly, which resulted actually in a surplus in the middle of the second quarter. But now since then, after the snow melted, there has been very little rain, so now we are going into a deficit already. The deficit was seven terawatt hours at the end of the second quarter and currently, it’s already about 11 terawatt hours. And, of course, this is of one of the
factors that is behind the extremely strong price rally that we have seen on the Nordic power recently. But it is not the only factor. The commodities continue of course to play a role. And the interesting thing of course for us is that, during the second quarter, all commodities did pretty well. Oil price development was strong. Gas price development was strong. Coal price driven by overall strong economy, strong demand and the Chinese supply parts that we have seen, resulted in stronger coal price, which then of course increases the short term marginal cost for coal condensing, having a connection to electricity prices.

And then very importantly, the ETS emissions rating system is now clearly starting to deliver as you can see in this development. Right now, the price is about 16 Euros per ton. This is about three times as high as it was a year ago. So, this is a strong development in just one year and now when the market stability reserve will start their fighting and kick in from the beginning of next year, the cover market will be quite much tighter. And now when the European Commission published the amount of allowances in circulation, you can from there calculate that the MSR effect will be that the amount of allowances that will be auctioned next year will be 40% lower than this year. So, that does mean quite a significant tightening for the CO2 markets, which is clearly now being anticipated in the prices already.

And a result of all this then is a strong power market as you can see here. The trend has actually been positive since the summer of 2015. The Nordic spot price in Q2 was 39 Euros, while it was 27.40 a year ago. 2019 forwards are at the moment, slightly over 37 Euros. On this chart, in addition to the actual historical development, you have two forward curves. The dotted line was the forward curve at the time when we published our first quarter result. And then the solid grey line, is the forward curve as of today or yesterday, I think. And there you can see that there is a strong improvement, especially in the 2019, and to some extent 2020, prices, and part of this is of course driven by the – especially the short end is driven by hydrology of course combined then with the strong commodities.
But this is overall very strong development and of course we should not forget that only two years ago, slightly more than two years ago, the overall forward market, including for the years 19 and 20, we’re around 16 Euros. So, now we are – for ‘19, we are looking at 37 Euros while it was 16 Euros, a little bit more than two years ago. Here you see basically the same in graphic for Q2 spot price up 42%. Our achieved price was up 10%, 33 Euros and 10 cents compared to 30 Euros a year ago. On the Russian side, what you actually see here is the effect of the Ruble-Euro exchange rate. Despite having more of a stable spot prices, then when the larger part of course coming from the CSA payments, despite the fact that they were doing fine, the end result is still 10% lower euro-denominated achieved price for the Russian segment, which is then clearly seen in the result of the segment.

Then if I move to numbers and I’ll make quick comments on each division before Markus the goes deeper into any spreadsheets and balance sheet items. A couple of comments on the group P&L this time now focusing on the first half, Q1 and Q2 that you have on this chart. We have for the first half year now, a 28% improvement in comparable EBITDA and 33% improvement in comparable operating profit. This is a development that we are in general pretty satisfied with.

Earnings per share year to date is 68 cents and in there we have 18 cents of items affecting comparability. So, those taken away, it would be 50 cents for the first half year. Generation segment, we have every reason to be pleased with the development. I already went through the factors behind. We have a 95% improvement in comparable operating profit. We have still – despite the fact that it has been very dry, still for the second quarter, we had slightly higher hydro production than a year ago and we had slightly lower nuclear production than a year ago; 5.6 terawatt hours versus 6.1 terawatt hours. And the main reason for this is the fact that Oskasham 1 was still running for the most part of the second quarter last year, I think it was in mid-June last
year when it was permanently shut down. So, this item that is there, affecting in a way the comparability will be gone then in the third quarter.

But overall, really, really good development in the generation segment. It is fair to say that we are disappointed with the result in the city solutions segment, 21 million negative is not something that we can be in any way proud of. There is a strong weather component in this. If you take away the acquired Fortum, Oslo, the Norwegian business in the old Fortum Värme or heat business, the volumes declined by 29% compared to second quarter last year. 29% lower heat volumes, and of course that has then a strong connection with the result. What you will see also going forward is that the Hafslund transaction and the fact that we now are running together with the city of Oslo district heating in Oslo, will actually increase the seasonality of the city solutions business, because the district heating of course in Oslo is in the same way seasonal as the rest of the heating business is. And now when there was an exceptionally warm second quarter, exactly the same seasonality then kicks in through the new Norwegian business for us and that accentuates the seasonality in the quarter.

In addition to that, there were items in the recycling and waste business, most of them project implementation type of nature that also contributed to the weak result, which are then of course management issues that we are working on. The fundamentals of the recycling and waste business are healthy and the basic business which is treatment of hazardous waste is running as expected. But overall, seasonality of this business is expected to increase going forward.

Consumer solutions is pretty much following the plan that we have. We are now focusing on the integration of the Hafslund business that we acquired. We are focusing on the development of the product portfolio, development of the IT systems. And as I said, in the first quarter report as well, there is no reason to expect any kind of major improvement in the results yet this year. These are things that will then play a role in the longer term in the years to come. We are now
building together with Hafslund their new base and a solid foundation for this business; and our goal is then that in the coming years, you would start the result coming through in the numbers as well. The Russia segment was also from one point of view a disappointment. Of course, there is the Forex effect which was about six million Euros in the Euro result. That was expected, but the unfortunate thing in the quarter was an insolvency of a power, electricity customer, fortunately something that is happening quite seldom in Russia. The last time we had anything like this happen was several years ago. But this did affect through a bad debt provision, the result of the quarter. What I can say though is that excluding the Ruble and the bad debt impact, the result in Q2 2018 actually improved compared to previous year. So, from that point of view, operationally we are not worried in Russia. But, of course, the fact that EBITDA went from 88 to 73 million Euros and comparable operating profits from 53 to 38 million Euros is a slight disappointment.

**Markus Rauramo:** Thank you, Pekka. I start with how we will report our ownership in Uniper. To start with, the total acquisition cost was 3.7 billion, and that was financed with existing cash for 1.95 billion, and then we draw 1.75 from the acquisition financing facilities that we had arranged. The ownership will be reported in participations in associated companies and joint ventures and that will consolidate Uniper as an associated company from 30th June of this year. We will record our share, the 47% of Uniper’s net profit in the share of profit of associates and thus it will have the corresponding EPS impact and contribution. The dividend that we will eventually receive from Uniper, it will strengthen Fortum’s cash flow. And as we know from already this year’s paid dividend, that would have corresponded to around 3.5% cash yield and next year’s guided dividend level by Uniper would correspond to about 4%. The share of profits from Uniper will be reported with the one quarter time lag, as Uniper is publishing its results every quarter, several weeks after Fortum. And this is similar to as what was the case with Hafslund earlier when it was an associated company and also still with the TGC one.
But consequently, the share of Uniper’s Q3 profits will be reported in our Q4 interim report for the first time. The reason why we will not report Q2, is that we did not own the shares until the very end of the second quarter. Also, it’s good to note that as Fortum has certain seasonality in its results, Uniper also has had historically a certain earnings profile which has impacted historically the results. So, when you estimate Uniper impact on us, it is good to look at their earnings profile.

Then I recap shortly Q2 and the first half of the year. In Q2, comparable operating profit went up 44 million. Generation almost doubled even with less volumes compared to the previous year. In city solution, volume down. Seasonable pricing impact was negative for Q2, positive for Q1 and then recycling and waste solutions was weaker.

In Russia, foreign exchange was the negative item as well as the impact of positive bad debt recovery last year and now the bad debt provisions that we mentioned this year. CSA payments were higher in the quarter compared to last year. First half of 2018 improved by more than 130 million. Generation, a positive impact from higher volumes, a positive impact from prices and positive impact from lower taxes. The Hafslund consolidation impacted positively both city solution as well as consumer solution. And this offset some of the other negative impacts that both segments experienced. In Russia, for the first half year, the foreign exchange negative impact was 18 million and then the same bad debt impact positive last year, negative this year, was impacting the result. Our CSA payment’s positive and electricity margin lower, and this resulting in 558 million comparable operating profit.
Then I will touch the main items in the cash flow statement. There are three comparison periods. Q2, first half year and then the last 12 months compared to 2017 and the items actually are similar in all of these comparison periods.

We start from the top EBITDA up. Then we had a positive impact in realised, we’ve experienced our losses through the rolling of our Swedish Krona and Ruble, denominated loans. A negative impact from the future settlement in working capital due to the increased prices. This of course comes back then eventually when the trades are settled.

Our CAPEX was less in all periods. So, we have had CAPEX scrutiny. Uniper acquisition of course when we look at the acquisition of shares, that was by far the biggest item in the comparison periods. In the last 12 months, we did also have the impact of the Hafslund transaction.

In divestment of shares, Hafslund Produksjon had a positive impact on Q2 and the first half of this year. Negative item was in the change of gas collaterals and that again is for the forward trades and due to the higher prices. And as mentioned in connection with Uniper, we used 1.95 billion of cash and 1.74 billion of the three-year acquisition loan. And this brings us to some of the key financial metrics. Due to the Uniper transaction, our net debt went up 5.3 billion, but at the same time EBITDA has increased to 1.45. Good to remember that there is no impact either on EBITDA nor on the debt from Uniper, so no contribution on the EBITDA. Despite this non-contribution, the net debt EBITDA is at a level of 3.6, which we are okay with, even though it is over our stated target of 2.5. Rating spots from S&P and Fitch are now settled at BBB; and with the new debt that was taken for the Uniper acquisition, our average interest rate going forward, with the current rates, will be about 2.5%. So clearly down from the level where it has been previously. Debt maturities are quite limited. For 2018 we have 125 million plus then the CSA payables. We have
maturities in 2019 of 800 million, with 750 million bond maturing in March 2019, and hardly any maturities in 2020. So, maturity profile is very good. As for us, the liquidity situation otherwise we have still significant liquid funds and committed credit lines, the revolving credit facility maturity is in 2023. So, liquidity is well-secured.

Due to this increased leverage, we have already communicated earlier that we will focus on moving the leverage towards our stated target. In Q1 we defined the areas; CAPEX, portfolio focus, fixed costs, and working capital. And we have proceeded as we communicated in last quarter. We have divested the share we had in Hafslund Produksjon. We have been active on the capital recycling side, and we can say that we have had good CAPEX and fixed cost control, and these will continue to be areas that we focus on. This enables us to continue to be selective prioritized investments but with limited equity exposure. And the cash flow measures and cash flow discipline will continue in the coming quarters.

Then to the outlook. The hedge levels for 2018 and 2019 are 75% and 60% respectively, and the hedge prices have increased by two Euros in both periods to 29 and 28 Euros. CAPEX guidance remains unchanged at 600 to 700 million. The synergies that we are estimating for city solution and consumer solution from Hafslund consolidation, remain unchanged.

Taxation is effective tax rate for 2018 unchanged, that’s 19-21% and this is also taking into account changes in Swedish property income tax. And we expect the demand growth to be unchanged at 0.5%. This is from my part. And I think we’re ready for questions and answers.

Ingela Ulfves: Thank you, Markus, and thank you Pekka. Operator, we are now ready to take the questions from the audience.
Operator: Thank you. If you’d like to ask a question off the phone, please signal by pressing star, followed by the number one on your telephone keypad. A voice prompt on your phone line will indicate when your line is open to ask the question. Again, press star one to ask a question. We’ll pause for a moment to allow everyone an opportunity to signal for questions. We will now take our first question. Caller, please state your name when asking a question.

Peter Bisztyga: Hello, it’s Peter Bisztyga here from Bank of America, Merrill Lynch. Two questions from me. Firstly, I’m just interested to hear if you’ve sensed any kind of change in the attitude of the Uniper management team towards Fortum; whether you think that the door is now open for a much more constructive alliance going forward now that the deal is closed? And then secondly, just regarding the weakness in waste and recycling in the city solutions, how much did that contribute to the year-on-year deterioration in profitability; and is this a new trend that we need to worry about? Thank you.

Pekka Lundmark: Okay. First of all, Uniper’s management has said also in public that they want to build a constructive relationship with us and we certainly share that goal. As I said, it has been a long journey and it has not been without challenges. So, now it’s very important reset, the relationship, and that’s why we have initiated discussions with both the Supervisory Board and the Management Board. And as I said, this will take time, but our fundamental investment case is unchanged. We believe that there is a lot to be gained through a good cooperation between these two companies; something that will benefit all stakeholders. So, that is definitely our goal.

In the city solutions part, we do not disclose the number that how much that effect was, but as I already said in my presentation, we do not believe that this is a trend. The underlying fundamental which is the robustness of the hazardous waste treatment business, which is the lion’s share of the cash flow in that business. It is healthy order book is – they’re out with – for the coming years.
Nothing has changed from the time when we decided to acquire Ekokem. There is another part of the business which is more volatile, which is in a way project-related. There is environmental construction type of project which sometimes have implementation related issues. We do not believe that this is a trend.

Peter Bisztyga: Okay, thank you.

Operator: Once again, if you’d like to ask a question, please press star one. We’ll take our next question. Caller your line is open, please go ahead.

Speaker: Two questions from me. The first one is on Uniper. When a vote on the appointment of a special auditor will take place? I mean, during the AGM of Uniper, a vote was postponed? It’s related to the actions taken by the management of Uniper in Russia? And my second question is on the power price yield to outlook. I don’t know you don’t comment on it, but any comment on that would be very helpful. Thank you very much.

Pekka Lundmark: If I start on the second one, it’s – yes, you are right. We do not comment power price development, so that’s why it’s very hard to give a comment other than commenting the previous historical development, which I did my best. We all know the drivers quite well, but unfortunately all market actors will need to create their own models and own forecasts. And when it comes to the special audit question, that whole discussion is something that we are not going to have in public or comment here. That whole matter is going to be a private discussion between us and the company.

Speaker: And a quick follow up. So, if I may, when can we hear more about the cooperation between Fortum and Uniper? I know that you signed a non-disclosure agreement, but when can
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we hear something more apart from, ‘Yeah we are in talks’? Thank you.

Pekka Lundmark: The only thing I can say about that one is that you would hear in due course because as you also yourself pointed out that we have a pretty strict non-disclosure agreement. There is a number of topics that we can potentially discuss when it comes to cooperation, but we’d want to be very disciplined here that when there are news, then we will publish them, but just to calm down expectations, many of these things are of such nature that they will take time.

Speaker: Thank you very much.

Operator: We’ll now take our next question. Caller, your line is open, please go ahead.

James Brand: Hi, good morning. It’s James Brand from Deutsche Bank. I just have three hopefully quick questions. The first is on the rating which you mentioned being confirmed at triple B flat. I was wondering whether you’d made any commitments to the rating agencies to secure that rating around disposals that you would be willing to kind of share with us.

The second question is on the CAPEX that you’re spending in the supply business in consumer solutions. Obviously, you had highlighted in the past that you were going to be spending a bit more in that business and investing in that business, an increase to 21 million for each one. I was wondering whether there was anything you could share with us on how much you might be investing in that business over the next couple of years.

And then thirdly, on the heat business, you had mentioned that there was this change in seasonal heat pricing that impacted the Q2’s negatively I guess, presumably impacted the Q1’s positively. I was wondering if there’s anything that you could tell us about the magnitude of that seasonality
so we can just have a bit of a better idea on how that might impact on kind of Q3 and Q4 this year. Thanks.

Markus Rauramo: Yeah, okay I can start with the rating. So, we have made no commitment. So, what you can read from the rating reports is what we have disclosed and discussed with the rating agencies. And as we have said, our target is to have a solid investment grade rating. And the outcome spot from S&P and Fitch are what we had anticipated in connection with the acquisition and is very much in line how they had guided when the different steps had taken place. Then for the consumer solution, the CAPEX increase partly is due to actually that IFRS-15 makes us capitalize part of the sales cost. So, that needs to be cleaned away. When we talk about the increased CAPEX and increased spending for developing the business, it is substantial but we have not disclosed the numbers there. But we talk about significant investment that shows both on the OPEX and CAPEX side of consumer solution.

Then when it comes to decision of pricing, what we are talking about is an ongoing development of pricing models where the goal would be to make pricing in district heating in the first place in Finland but then potentially in other places as well in the future to be more demand-driven so that when the demand would be high, the market would be tighter obviously, that should be reflected in prices; or, in simple terms, prices should be higher in the winter and consequently most slightly lower in the summer time, which then increases with seasonality.

And in addition to that, this would create a platform for new services like demand response where a new type of approach for product packaging and pricing could be taken. You are right that there was a small positive effect in Q1 and a small negative effect as we highlighted in Q2. These are not hugely material when it comes to the overall picture. And the reason why we mention this is that this is a trend – part of the overall trend that we are expecting in the business
that seasonality is increasing – Q2 and Q3 weaker, even slightly weaker than before. Q1 and Q4 slightly stronger than before, but we are not disclosing the number and, as I said, it is not huge. It is there and that’s why we mention it.

James Brand: Okay. Thanks a lot.

Operator: Once again, if you’d like to ask a question, please press star one. We now take our next question. Please state your name when asking a question. Your line is open. Please go ahead.

Speaker: Yes, thank you. Good morning. I had two questions. First you have always been pretty articulate when it came to the city regime, you have always been a believer in it and I think building on it. Can you help us with your view what you think is driving prices there and what you would expect in upcoming years? The German think tank just lately suggested, despite MSR, the systems to stay oversupplied, which would imply current prices are to an extent liquidity-driven. You know there are many other views in the market contradicting that conclusion. I was just interested in what your view is given your ongoing public support for the system also in the past.

My second question would be on Uniper. You are aiming to, as you say, reset the relationship with the company, with the management. How important in that reset is the current tap water license issue in Russia which currently prevents you from going over 50%? Is that crucial or do you find enough other areas to – for a more constructive relationship at the 47% shareholding level? Thank you.

Pekka Lundmark: Okay. Thank you. I start with the CO2 and then Markus will jump in. The fundamental point in our strategy of course is that we want to drive market-driven decarbonized station, and that’s why we are all for stronger carbon pricing as long as it is as market-driven as
possible. And we believe that the volume-based carbon-trade system, such as the ETS system, is the best solution for that. And just to make sure that there are no misunderstandings, our investment on Uniper does not in any way change this fundamental belief. There’s a lot of parameters affecting the market, and, of course, we are not disclosing our own view; in addition to what has been published of course is in the checkpoints that they are in-built in the system. In 2021, there will be a checkpoint when the MSR will be discussed, whether or not the 24% intake rate will continue or whether it will fall back to 12%. And then in 2024, there will be a checkpoint where the linear reduction factor will be discussed. The interesting thing there is that still today, the linear reduction factor is not expected as it is today; and even now strengthened, it’s not expected to deliver emission reductions that would correspond to the Paris target for the European part. So, that’s why we are strongly recommending that the linear reduction factor should be tightened latest at the checkpoint at 2024. There are very, very different views on the price development. There was one paper published yesterday where one acknowledged as you may have seen, said that the price will go to 100. And there are some others who believe that there’s totally different situation and the prices will be weak. We are not disclosing our own views on this question, but obviously, the old rule of thumb that we are using, which is that one Euro and the price of carbon depending on hydrology cost situation will affect the Nordic bulk price somewhere between 40 and 80 cents. Closer to the upper end of that range, when it’s dry and closer to lower end of that range when it’s wet continues to be the case that we believe in. Markus, do you want to add something?

Markus Rauramo: I think you said basically everything that I had on my mind, but on top of that just saying that – what I assume, and I think we assume that what EU is targeting, with the DS and MSR, is that there is the meaningful price impact that would incentivise investment into clean energy production, but at the same time would not completely devastate the energy-intensive industries. And that’s why there are so many different levers that can be pulled in the system. But I think that could be my answer rather than even trying to give a forecast.
Pekka Lundmark: It is the very question the energy-intensive industries that there should be a level playing field, and that's why we are strongly – in our discussions with EU, we are strongly encouraging them to discuss with their counterparts in China for example as to how to potentially in the future make assistance interconnected or at least so that there would be a level playing field. We are also supporting the initiative by the Finnish government that decentralised heating should be in the future included in emission trading as well. And when European Union is starting to create a vision 2040, we would really like to have a strong emission level, little bit California style were also traffic, transportation would be in that system. These are some of the visions that we are discussing in our lobbying efforts when making the system stronger in the future.

Then when it comes to Uniper and the water treatment license, our understanding is that this licence and the fact that it is there was the reason why according to the strategic investment law the decision was that we are only allowed to buy up to 50% of Uniper. Now also the FAS in the anti-trust ruling put the same 50% limit there. And that may mean that if we – in the theoretical case, that in the future would be over 50%, there is a possibility that a new filing would be required. But of course, from an operational point of view, our understanding is – but this is more for Uniper to comment – but our understanding is that the role of tap water testing and the business is extremely small. We are doing similar type of activities at our power plants, but we have outsourced that Russian counterpart. There’s a lot of companies who are able to do that activity. SO, our understanding is that it’s not in any way strategic.

Speaker: Right. Thank you.

Operator: As a reminder, press star one to ask a question. We’ll now take our next question. Caller, your line is open, please go ahead.
Vincent Arrel:   Hi good morning. Vincent Arrel from JP Morgan. Some of my question has been asked. I’ll basically bounce back on the CO2 and linking that to Uniper. Since you’ve made your offer on Uniper, we’ve seen a city floor, and I know this is out of call in Netherlands. So, what is your view basically on the impact of valuation regarding this asset? Also note that clean [inaudible] spread the Ruble, a number of things have been going south regarding the fundamentals on this name. And this name remains – is still a net exposed to CO2, it’s not yet neutral. It will take a number of years. So, is this a subject of concern regarding, first, valuation, and, second, regarding a strategy? Thank you.

Pekka Lundmark:   We are not concerned. I mean many of these things we had in our assumptions when we built the investment case; and the fundamental parameters that we have in that case, they are valid. And of course, you need to remember that there are also significant parts of Uniper that are not exposed to the spreads. There is the whole Swedish business, which is hydro and nuclear and then there is the German hydro business, which are all very significant and represent large capacity and volume in CO2 production. So, on a net basis, which, as I said, we continue to actually speak for a higher carbon price, power price development, is very promising and our investment case as we see it holds – continues to hold very well.

Vincent Arrel:   Thank you. And regarding the comment on the Netherlands, the CO2 floor, the call and as well the debt and delay, would you agree that all of this on a fundamental basis has been detrimental to Uniper valuation?

Pekka Lundmark:   When it comes to things like Datteln and others, those are all for Uniper to comment, and we are not going to second guess or make comments on their comments. They speak for themselves and we look at the company as a whole. You mentioned CO2 floor. There
our opinion is that, of course, the intentions are good, i.e., to create a higher CO2 price and that way stronger incentives for decarbonisation. Our concern is that if you start to get national CO2 floors, without touching the overall ceiling cap on emissions, the only thing that you achieve is that you dilute the market in other parts. So, that’s why we feel that the best way to develop CO2 market would definitely strengthen the linear reduction factor in the system and then let the market work and find the places where it would be most economical to decarbonise. That’s exactly how that market works. Then if there is no other way, because of political pressure, than to start talking about CO2 floors, then they should be regionally as wide as possible, preferably covering the entire ETS area. Then you would achieve basically the same result – that you would get higher CO2 prices.

Operator: There are currently no further questions from the phone. We’ll pause for a brief moment to allow anyone an opportunity to ask a question if they wish. There are no still questions from the phone. With that, I’d like to hand the conference back over to the conference room.

Ingela Ulfves: Thank you, Operator, and thank you for all the questions. We have some questions on the chat, so I will hand over to Måns now to ask those questions.

Måns Holmberg: Yes, so, firstly we have a question from Andrew Moulder. Do you expect to see the Russian 50% ownership restriction lifted, or do you believe you can circumvent restriction by implementing some kind of intermediate holdco structure?

Pekka Lundmark: That is not something that we want to speculate on. As I have said many times, we are happy with the 47% shareholding in Uniper. There is a restriction that we have to live with. And anything other than that, we will not speculate on.
Måns Holmberg: And then we have a second question from Michael Charlton, Bank Santander. Could you be a little bit more specific about when you expect to return to 2.5 leverage? Has the timetable been agreed, shared with the rating agencies?

Markus Rauramo: Yeah, so the rating agencies have communicated what is their timeframe. Within their review periods. So, we expect that we can show the direction and the activities that are leading to the appropriate levels. Then as a reminder also, it's not under the net debt EBITDA, but it’s cash flow from activities versus net debt. So, there are other ratios that we are looking at and also the decisiveness of our activities, but they are not firm signal data points that you can only refer to. What I recommend is that you look closer at what the rating agencies communication on the subject. The direction is clear, so deleveraging, having the cash flow and capital-use discipline, these are the internal measures we are focusing on.

Ingela Ulfves: Thank you, Pekka. Thank you, Markus and thank you to the audience. These were all questions for today. Just as a reminder, Fortum will publish its third quarter interim report on the 24th October. So, we’re looking forward to meeting up with all of you then at the latest. Thank you everyone for your participation. And on behalf of Fortum, we wish you all a very nice rest of the day and also an enjoyable summer. Thank you.

Pekka Lundmark: Thank you.

Markus Rauramo: Thank you.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.