Ingela Ulfves: Welcome to Fortum’s webcasted news conference on our second quarter results here today. Both those of you who are here with us in Espoo and those of you who are listening online, please note that this event is being recorded and a replay will be available on the website after this presentation. My name is Ingela Ulfves, and with me here today is also Rauno and Måns from our IR team. Our CEO Pekka Lundmark and CFO Markus Rauramo will present Fortum’s 2nd quarter numbers and performance, after which we will open up for questions and answer. As a reminder, you're also able to ask questions on the web chat. I now welcome Pekka to start.

Pekka Lundmark: Thank you very much in Ingela. Good morning, everybody both here in Espoo and wherever you are. We are really pleased with this quarter. We had improved results in all business segments. We had strong cash flow on and I would say that the result improvement this fairly broad based. It's not tied to any particular single item as you'll soon see. We achieved this result improvement despite the fact that Nordic spot prices in the second quarter were down 9% year over year. Our teams did a really strong result and good working optimization, for example of our hydro production. And as a result, we had an achieved power price which was 35 euros per megawatt hour, up one euro and 90 cents from the year before. The reservoir levels are on now a higher level than they were a quarter ago, which of course is now contributing to the hydra volumes. As a result our comparable EBITDA today was up 32% compared to last year on comparable operating profit up 52%. In the share of profits of associates and joint ventures 461,000,000. Now we have for the first time a significant
contribution from Uniper. It was 384,000,000 euros. And there of course, we have to remember and note that 333,000,000 out of that is non-operative adjustments, typically fair valuations of various instruments. This is very important to keep in mind also when you look at the earnings per share development in the quarter, which was of course extremely strong 69 cents per share. There is again some items affecting comparability that Markus will go through in more detail. But if you exclude the effects of these items and then if you take away the non-operative adjustments from the Uniper contribution, we are still looking at a very strong improvement in our EPS. We did have a very strong cash flow as well, 740,000,000. Again, Markus will go through the details of the various components of the cash flow. And as a result of that cash flow, despite the fact that we during the quarter paid about 1,000,000,000 euros of dividend, our net debt to EBITDA has come down to 3.3 times last 12 months EBITDA. And once again here we always have to remember that we are not consolidating anything from Uniper’s EBITDA into our result. We have also finalized the Uniper purchase power price allocation and also in this one, Maruks will go through the details. When it comes to Uniper, we remain convinced that Fortum and Uniper together can take a leading role in the European energy transition and working in close alignment, we would be stronger and better positioned to address the key challenges of the energy landscape in the future; affordability, sustainability and security of supply. The talks we held with Uniper during the spring only strengthened this conviction. Following the controversy that many of you have seen around the Uniper annual general meeting in May, we have now met with Uniper employee representatives, we have met with the new members of the management board, we have met with the supervisory board, and I’m pleased that we have now agreed that the discussions that were put on hold after the AGM will now continue. Now we need to see where these discussions take us. There has been a lot of confusion and also incorrect information in media recently, so it is now very important that we make quick progress in order to create clarity to all stakeholders as soon as possible. Then if I go back to our result and especially the water reservoirs, which is an important driver. The warm start into the second quarter initiated spring inflows earlier than normal and that lifted the Nordic reservoirs above long-term average already in the beginning of the quarter. Then this was followed by warm April and rainy May and June, so water reservoirs actually stayed above the average throughout the quarter as you see on this chart. The orange dotted line is the 2019 development and, no, sorry, not the dotted line, but the orange line with the with white circles is 2019 and the grey dotted line is the reference level of the long-term average. At the end of the second quarter, the water reservoir levels were 6 terawatt hours above the long-term average, while in the beginning of the quarter they were about 2 terawatt hours below the average ritual. That shows how strong the development was during the
quarter. Now the first couple of weeks of July have again being a dryer. So the very latest figure, which I believe is from yesterday, or from the day before yesterday, is two terawatt hours above the long-term average. Commodities, fuel price development, gas and coal are obviously the competing fuels in power generation in many parts of Europe, and that's why their prices are typically quite intertwined. Coal has been actually more affected by the darkening global macroeconomic environment than particularly Chinese weakness as roughly half of the global coal demand is in China. And just as one example of the development, coal for power demand growth in China has essentially paused. There is currently no growth at all.

When it comes to gas, the prices have been more driven by the strong supply growth in LNG, that the East Asian buyers have not been able to absorb and that has meant that Europe has been the market balancer. The storages are pretty high, about 80% at the moment, and one very interesting detail is that this gas price collapsed that you see on this screen has contributed to roughly 20% year over year decrease in coal for power demand in the EU28 in the second quarter of 2018. Another player and a significant driver, obviously on the power market is the CO2 price development and the EUA price has held up very well despite what you just saw on the coal and gas prices. And this is because of the tightening CO2 market mainly through the market stability reserve which has created, or the put the market in, deficit. 2019 is the first year of operation for the market stability reserve and according to the current decisions, the instrument will continue to keep the market tight at least until end 2023. There is an agreed checkpoint in the system in 2021 when it will be discussed whether the 24% intake rate will potentially continue even after 2023, but currently there are no decisions on that. This is a very important driver and just as one interesting detail, I already mentioned that this together with the coal and gas prices is currently driving coal to gas switching, but there were even temporary situations in Germany where even the clean brown spread CBS was negative, ie making gas go above lignite in merit order. That was a temporary thing, but it was interesting to note that that really happened as well. Nordic spot price has been on the weak side lately. The improving hydrologies, of course, the main reason for the decline during 2019. In addition, as I mentioned declining gas price created softness in German spot price, which also had an impact on the Nordic spot price market. But then when we look at the forwards we can see on this chart the lower right-hand corner that despite the weakness in spot price, both the Nordic and German forwards for the 2020 contract have held up quite well. So the forward market this expecting a recovery in prices. When it comes to the spread between the Nordic and German prices in realization in spot price, the quarter was pretty much on the same level in both regions, but actually the spread for 2020 has increased to 15 euros per megawatt hour and one key driver behind this is the CO2 price, which is of course supporting prices both in Germany
and in the Nordic region. But in relative terms slightly more in Germany than in the Nordics. Here you have in graphical form the price development achieved price as I said up from 33.10 to 35 at the same time when the spot price was down 9%. On the Russian side pretty good development, spot price up 15% in rubles and our achieved price which also takes into account the capacity payments and then translates this everything into euros was now 11% higher. And actually, this is now the fourth consecutive quarter as you can see here where we had an improved achieved price in Euro terms in Russia. Then before Markus continues, quick comments on each of the segments. Generation first, of course, the achieved power prices a strong driver here. But also in addition to this, the volumes had now good development. We had 5.3 terawatt hours of hydro production versus 5.1 a year ago. And then the nuclear development, nuclear availability was also in a very good level, 5.9 terawatt hours compared to 5.6 year ago. Another driver behind the result which is not to be forgotten in the Swedish tax decisions that were made a couple of years ago and that is supporting the generation segments result with approximately 20,000,000 euros this year compared to 2018. City solutions had also a better result than last year, of course seasonally weak but EBITDA 31,000,000 compared to 23,000,000 last year. This was again warmer than normal, but not as extreme as last year, so that supported the result a little bit. Another positive thing was improved result in waste and recycling business, which is obviously based on the old Ekokem acquisition. Of course, the return on assets in this business is not yet on a satisfactory level. 5.7% RONA, where as in the generation business, which I actually forgot to mention of the previous slide, we had a pretty good 11.8% return on net assets for the last 12 months. The fleet in city solutions is fairly new, which of course effects the RONA. But I just want to say that we're not happy with this. 5.7% level. Our goal is clearly that this would also in the future climb gradually towards our target of 10%. Consumer solutions had another good quarter in a row comparable EBITDA from 26,000,000 to 34,000,000 and corresponding development in operating profit as well. We had higher product margins as a result of introduction of certain new products. The competition remains very tough, churn continues to be an issue, but despite of high churn we were able, to mainly through the introduction of these new products and efficient operational execution, we were able to improve the result. And then of course, both in city solutions and consumer solutions we repeat the Hafslund synergy guidance. In city solutions 5-10,000,000 to be achieved by the end of 2020 and in consumer solutions roughly 10,000,000 to be achieved by the end of 2020. I mentioned already after the good first quarter in consumer solutions that part of this improvement cannot be automatically extrapolated to the second half of the year. Now I repeat what I said earlier, this is just a word of caution and we are optimistic about the prospects of result development, but please don't assume that it would continue quite this
strong. Some of this is temporary and then on top of that there are uncertainties regarding the development in Poland, when they are still, when it is still a little bit unclear to us how the proposed price regulation in consumer prices will be implemented and how that would be potentially compensated to suppliers. That creates a certain uncertainty for the second half of the year. And then finally Russia. An excellent quarter, EBITDA from 73 to 107 and operating profit from 37 to 69. Several factors behind this higher power margin spread, higher CSA payments, and on top of that clearly lower bad debt provisions compared to last year. All this contributed to a pretty good result, and last 12 month return on net assets 11.7% which obviously starts to be on a pretty good level. So now I will ask Markus to continue. And then after that, we are ready for questions.

Markus Rauramo: Thank you, Pekka. So I will start by first summarizing the second quarter performance. Very strong performance. Comparable operating profit from 153,000,000 to 232,000,000. This was driven by better volumes in both hydro and nuclear as well as better prices in generation. Russia improved on the lower bad debt provisions, higher power margins and CSA payments. Also city solutions and consumer solutions improved year on year. Segment other was impacted by the increased spend in business technology, including the internal and external ventures. Other corporate function costs were flat year on year. For the first 2nd half, we can see the same development. Generation up driven with prices and volumes. Russia improving on the back of higher margins and CSA payments and lower bad debt provisions. Recycling and waste solutions and in Norway improved city solution results and sales margins were higher in consumer solutions, all this resulting to that comparable operating profit went up from 558,000,000 to 640,000,000. Then I move over to more of the technical parts and first start with Uniper purchase price allocation. We finalized the purchase price allocation during second quarter of this year. Uniper’s balance sheet as of 30th of June 2018 has been used as the starting point for this purchase price allocation. First, we take Fortum’s share of the goodwill on Uniper’s balance sheet, 930,000,000 and derecognize that as it is not an identifiable asset according to IFRS. Potential future impairments of goodwill that existed on the 30th of June 2018 in Uniper’s balance sheet, booked by Uniper will thereby be reversed to Fortum’s share of profits of associates and joint ventures. Then a fair value adjustment of 613,000,000 was made for the acquired assets and liabilities. This is relating mainly to political and regulatory risks that are reflected in the fair value of certain generation and production assets. The fair value adjustment will be reversed to share of profits of associates and joint ventures over a period of 20 years, 30,000,000 euros on an annual basis. Fortum’s 2nd quarter share of profits from Uniper include a positive impact of 15,000,000 euros from the reversal of the fair value
adjustment for the first half of this year. If Uniper would report negative impacts relating to these generation and production assets, then Fortum will assess potential need to use this fair value adjustment to reverse these negative impacts. In addition to this, there is comprehensive disclosure in our second quarter report in notes 6 and 11 regarding the PPA and the value. Then I move over to the key financials. You start from the top sales EBITDA and comparable operating profit are up in all periods in the Q2 in first half and LTN versus just last year. When we go down on the table operating profit is impacted by sales gains, nuclear fund adjustments and fair value changes. And I will open these up on the coming slides. Uniper result had a big impact on the share of profits from associates, and I will also come back to this line in the coming slides. So finally profit before tax, EPS and gas flow improved significantly also in all periods, in second quarter, in first half, on last 12 months. When we go deeper into the income statement, I start from the comparable operating profit line, that was up. Then we have movements in the items affecting comparability and this included impact from the regular nuclear technical update that is done periodically. Maybe the key thing to start with is that the underlying cost of the spent nuclear waste handling has reduced substantially. And this means that the nuclear provisioned goes down. But as we are overfunded as you can find in our notes, that means that we can also recognize less of the fund assets and this results in a negative 54,000,000 impact in items affecting comparability. And on the other hand, because of the discounting and interest effect, we have a positive item in the net financials of 40,000,000. Net impact from all of the changes in nuclear accounting and the underlying factors is not material. The underlying cost is coming down, so overall situation is very good and the impact, as I said, it not material. There is more comprehensive disclosure on this item as well in note 14 of our quarterly report. One thing to note also that in Q2 18 we had a positive impact from the sale of 10% stake in Hafslund Produksjon, which resulted in a 77,000,000 sales gain. Then if we go down also in Q2 we had the very strong contribution from the share of profits from associates, 461,000,000. Uniper out of that was a total of 399,000,000 and that is already including then the 15,000,000 impact from the fair value adjustment that we will then record periodically. Then moving over to the cash flow statement. Cash flow was very strong, strengthened by the dividends received and working capital. If we look at second quarter of this year, we received dividends of 165,000,000 from Uniper, but also dividends from Stockholm Exergi and TSE, Turun Seudun Energia. In this quarter, we had positive working capital change of 233,000,000. The same item was very strong in the first half of the year, driven also by the change in settlements for futures. So totaling working capital change in the first half was 502,000,000. As we know, this can be a very volatile item due to the changes in the settlements. All in all this resulted in very strong net cash flow from operating activities. And then if we continue down
on the table, the first thing I would note there is on the last 12 months numbers we have CAPEX of 696,000,000. This is including the communicated regular maintenance CAPEX, some growth not very much, and then the big part on top of this is the solar and wind investments. As we have said, that those have potential to be recycled as we have done before. Then key item, if we go down, is the acquisition of shares in the second quarter of 2018. Uniper, this is also reflected in the full year 2018 numbers. Going further down, divestment of shares. Last year, Hafslund Produksjon had a big impact. And then the collateral arrangement that we did in Q1 was releasing cash, this is visible in the first half numbers. So all in all, all this is resulting into very strong cash flow before financing activities. 527,000,000 in Q1. 1.4,000,000,000 for the first half year. In the last 12 months, 1.2,000,000,000. Then I move over to the balance sheet and funding key indicators. And here we are focusing on optimizing our cash flow to deliver a balance sheet towards our target 2.5 times. This is also to maintain our financial strength and flexibility. If we compare the numbers to 2018 full year, EBITDA up to 1.62,000,000,000. And net debt, because of the drivers that I went through and Pekka mentioned, net debt actually went down to 5.4,000,000,000. And this means that the comparable net debt EBITDA has come down from the level of 3.6 to 3.3. Our liquidity is strong. We have 1.3,000,000,000 of cash and cash equivalents. Undrawn committed credit lines of 1.8,000,000,000. Average interest is coming down now at 2.2%. And, on the maturity profile, we have no maturities in 2020. Then finally to the outlook we continue to expect that demand growth for electricity in the Nordics is 0.5%. Our hedging levels have increased to 80% for the rest of the year 2019 at 33 euros and for 2020 up from 55% to 60% with the same hedging price level of 31 euros. We continue to guide the CAPEX to be between 600-650,000,000 excluding acquisitions. The targeted cost synergies are well on track. We are expecting 15-20,000,000 materializing in city solutions and consumer solutions gradually this year and next year. The effective tax rate for the group remains at 19 to 21% more likely on the higher side. And we continue to get the positive impact still by the Swedish tax reductions that will then end in 2020. With this, we can move to Q&A. Thank you.

Ingela Ulfves: Thank you Markus and thank you Pekka. So we are now ready for the Q&A session. We will start with potential questions here in Espoo and continue to the teleconference participants. Any questions here in Espoo? OK. Thank you. Operator. We are then ready for the questions from the teleconference. Please go ahead.

Operator: We have the first question from Vincent xxx from J. P. Morgan. Please go ahead.
Q: Good morning. Just so a couple of questions. One. You said that you will remove xxx to get more clarity for stakeholders. What did you mean here? A bit more color on your intent would be useful. Second. We see that the bad debt in Russia since you have a naturally improved. But we don’t have really necessarily the numbers. Could you give us like the amount of provisions you did in H1 or Q1 to last year versus what you’ve done this year? So we can basically put a number on that. That would be useful. Another one the achieved power price and the spot. So you showed that the spot is basically at a lower level. I wanted to understand a bit how you managed to avoid xxx getting too much impacted by that. So while the specifics on exactly your areas and just getting some color. And finally on the city solutions, you say that part of improvement is temporary. You started to touch on that. Could you give us exactly the nature of this improvement and why part of it is temporary and that would be extremely useful for all of us. Thank you very much.

Pekka Lundmark: All right. Thank you. If I start from the Uniper and the clarity question. Unfortunately, after the AGM there has been a lot of confusing media reports including, as I said, a lot of also misleading or directly incorrect statements about various stakeholders, views and intentions and so forth. And that’s why it is really important that we now not through media but through constructive discussions with companies management and also very importantly, with the personnel representatives discussed that how we look at the future of this company. We continue to believe that working in close alignment, these two companies could create tremendous value and play an important role in the European energy transition. I have a lot of sympathy for the personnel’s concerns at the moment because they have seen all these confusing statements in media and it is very clear now that we sit down constructively with the company and talk about the future. We have said very clearly that what type of different routes forward we see. This is what we want to discuss with the company. But very importantly, we have agreed with them that now when the discussions continue that they're confidential discussions and we intend to keep our part of that promise and that’s why unfortunately, I will not go into any more details about what specifically we would and will discuss.

Markus Rauramo: OK, I can take the bad debt provisions. We don’t disclose exactly what numbers they are, but as it is in our waterfall and also on our text mentioned, as one of the important factors. So I would just describe it as being one of the top factors in the Q2 delta and we mentioned the others as well; the CSA payments and electricity margins. And then we have to remember that we also recovered, some of the received, part of this is recovering the receivable that we had from the guaranteed supplier that we eventually bought into the joint venture. Then for the achieved power price even when the spot is lower. Good question. So the result is a result of hedging and the physical optimization. And the physical optimization we had a really good result now in second quarter and June. Then for the, actually the temporary
improvement was in consumer solutions, and the driver there is that mostly and largely we hedge our the consumer electricity sales back to back. So what we sell, we have hedged. But some of the products of minor share have pricing that is valid for the time being, so there is no set schedule when we would have price changes. So when the procurement price from the market goes down and if for the time being price stays longer than the price is going down, we may get then temporary spread improvement. So this is basically the statement is assuming that if nothing else happens, then we are not going to get this kind of benefit. But of course, going forward, whether the market prices go up or down, that then drives what happens in the coming quarters. I hope this opened up a little bit.

Q: Thank you very much.

Operator: Thank you. Next question comes from Jose xxx from xxx. Please go ahead.

Q: I assume that that was my name was called. Two questions on my side. One is straight forward on the accounting side. Why don't you include the Uniper non-operating result in the items affecting comparability, because they, well, thay do effect comparability? So it would perhaps be useful to strip them out to a low comparability. The second one is straightforward, really. And relating to the various press articles we had, you said you don't want to comment on it, but they are discussing investment restrictions in Russia with President Putin. The recent article in the xxx that so straightforward is your aim sooner or later to get a majority stake in Uniper?

Markus Rauramo: OK, I can take the accounting question. So you are correct that we record our share of Uniper’s net profit in our share of associate and joint venture income. One reason is that that's where we, according to our policies, book the results. The other one is that we would not have full visibility in what are the items affecting comparability when we record the numbers so it would be also difficult for us. So this is a more straightforward way on and then there is also good disclosure from Uniper. So how they break up the numbers that is best to discuss then with Uniper.

Pekka Lundmark: Then when it comes to the Russian situation and our shareholding, we have said from the beginning that we do not speculate on whether or not we would have an interest to buy more shares in the future. There’s a lot of value creation that can be done even with the current shareholding. But we do not feel that the 50% restriction that there is in Russia because of the drinking water supply operation in Russia is really in the interest of shareholders, it is of a technical nature. We have in our own operations outsourced similar activity to a Russian partner. This is in no way core to Uniper’s operations and what the way we see the situation is that it limits first of all, our optionality, but it also limits other shareholders
optionality in case there would be shareholders that would like to sell their shares to us. So we do not believe that it is in the interest of shareholders to have the restriction there. And that’s why we have been working since it was put on us. We have been working actively with our partners in Russia, with the authorities, find ways how to deal with the situation. And that work obviously continues. But then the second part of your question once again about our plans to potentially buy more shares. Currently, our hands are tied. If the restriction is to be is to be removed in the future, that is then a new situation, but that is the question that we are not speculating on what we would do or would not do in the future.

Q: That’s great. Thank you.


Q: Good morning, and thank you for taking my question. Gentlemen, I would like to repeat the SocGen gentleman's question and take up your answer on that. If restriction in Russia were to be lifted, do you then intend to acquire a majority stake in Uniper, Mr Lundmark? Yes or no? Thank you.

Pekka Lundmark: My answer was that I do not want to speculate on that question. That restriction limits the optionality when it comes to our possibility to buy more shares, it also restricts other shareholders optionality, in case they would like to sell shares to us. But I do not speculate on the probability of, number one that restriction to be lifted, and in the theoretical case that it would be lifted, what we would do in that situation.

Q: Thank you.


James xxx: Morning. Just a couple of questions on your associates, please. Firstly on Olkiluoto 3 I saw that the target commission date has been pushed back to the mid 2020. And you also highlighted in the statement you have this agreement with the Areva where TVO could receive up to 400,000,000 of compensation. Can you just remind us how the conversation works there? And if there were further overruns, cost saver runs, for that project is Areva still on the hook for those or could TVO be required to commit some funds to complete the project if there further cost overruns? And then secondly, just on your nuclear associate contribution for H1, that was obviously was up pretty strongly, about 40,000,000 euros from pretty close to zero. What’s driving that? Because I could see that you highlighted some one-off negatives that you had last year. But normally those nuclear associates don't really contribute any profits. So just wondering whether 40,000,000 or so was one-off in nature, whether that was coming from something that might repeat in the future. Thanks.
Markus Rauramo: Yes, OK. I can take that one. So correct, the plant supplier came with the reverse timetable, basically pushing the PTO date half a year forward. And it has been communicated as part of the global settlement agreement, which regards to settling the arbitration that there is a compensation mechanism whereby the plant supplier are Areva-Siemens will then pay a compensation. But the exact details of the compensation haven't been given, so I cannot comment that further as such. Then for the nuclear associates and their result impact, the basic setup is exactly as you indicated. So from a nuclear associates, we get the power and cost and the result of the associates should normally be close to zero. The major part of the positive impact is now coming actually, from the technical updates at this time. So from time to time, there can be changes in the nuclear provisioning, spent nuclear fuel costs and so on. And these may get reflected then in the results, but over time should be zero.

Q: Okay.

Operator: There are no further questions at this time. Please to go ahead speaker.

Ingela Ulfves: Thank you operator. Thank you for all the questions and thank you for participating. If there are no further questions in the audience either, I want to thank you all for participating here today and on behalf of Fortum wishing you a very nice upcoming weekend. Thank you so much.

Markus Rauramo: Thank you.

Pekka Lundmark: Thank you.