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**Moderator:** Sophie Jolly  
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Pekka Lundmark: Thank you very much, Sophie. Good morning dear investors. It's really my pleasure after approximately a year, a little bit more than a year in the company to welcome you, for my part, for the first time to the Fortum Capital Market Day here in Espoo.

This has been an unbelievable learning journey, which of course, still continues. After ten years in telecom, after a little bit more than ten years in machine building this whole world of energy, it's really a fascinating thing which has a lot of connection points to the other industries in the world. But of course, there is a logic of its own that I'm of course committed to learn and as I said, that learning journey, still continues.

This picture that you see here is from a gigantic hydropower plant in Sweden. The name of the place is called Trängslet and it's a 330 megawatt power plant with a very big reservoir. Tiina will be talking to you about the important role of hydro in the future system and as balanced power and it's assets like this that are the key value creators there.

We have, of course, in the Fortum story in the past few years, we have made several quite big decisions. We decided a few years ago to divest the distribution networks in 2008, a very big and important decision was made to significantly increase operations in Russia. The acquisition of Ekokem, €700 million is a very important step in our strategy that Markus Rauramo will be talking more about. In general, the purpose of today is to go a little bit deeper into what is really driving our decision making and what our goals are.

Of course, remember that we published a fairly, I would say, high-level strategy in February this year. It was purposely on a very high level. Today, we are going to talk more about priorities, about the capital allocation and what is exactly driving those different segments. Because they are not equally important in terms of capital allocation and especially when it comes to the phases and the timing of those phases. That's probably the most important goal that we, in Fortum management, have today to help you to understand it how we are really thinking in terms of the capital allocation.

I will have two parts in my presentation. I'll first talk about the world around us and the environment and the market development. That's the first part. Then the second part is then what all that will mean to Fortum and then especially I will go deeper into the investment phases and the target date capital allocation also. And yes, I will talk about the dividend.

The megatrends in the world are quite well-known, that's why I'm not going to spend a huge amount of time on them. These do not differ between us or any other companies for that matter but still a couple of important points that I want to highlight. Of course, our business, a very important driver is decarbonisation and everything - including everything that the Paris agreement is incorporating. That is really gaining momentum in the world at the moment. The Paris agreement was ratified on 4 November and it went faster than most people would have believed.

Now, of course, there are new question marks about what Mr Trump will do to the role of the United States in this fight against climate change. We simply do not have those answers yet and your guesses are as good as ours. We, of course, would hope that he would continue the efforts. And, of course, encouraging thing is that already now several states have said that regardless of what the federal government would do, they will continue their own efforts.

Another thing to mention is that there is tremendous amount of risk capital being put into different types of decarbonising solutions in the US at the moment. The private equity and risk capital investment into clean energy in California only alone, is as big as that of the whole of Europe. So there is a lot of happening in California in private equity at the moment when it comes to clean technologies and that will not change, regardless of what the federal government will do. So that's the first point.

International energy agency has estimated that in order to fulfil the targets of the Paris agreement, approximately US\$16,500 billion will have to be invested in the world's energy system, US\$16,500 billion will have to be invested. And it's obvious that that money will not come from government budgets. The only way to implement the agreement and get to the 2 degree target is to find that money from somewhere and we continue to believe that the only way will be market mechanisms that will remunerate private investment in such a way that that money can be made available. So we need to make sure that market forces will be behind that 2 degree target. Otherwise, it will never work.

Another thing which is very encouraging is the progress in technology. As we know the cost of solar has dropped 80% in five years. We have seen recent drops in the levelised cost of electricity for on-shore wind. For example, in the Nordic region now last week we saw very aggressive bid on offshore wind, as well around €15. So the cost of new renewables is really coming down and this will be a very fundamental change in the system going forward, especially a little bit in the longer term.

The final point I want to make about the trends is, which then connects to not only the energy system but also to recycling and circular economy opportunities, is the fact that the amount of waste that the world is producing is roughly expected to double between 2015 and 2025. In the EU alone, about 30% of waste goes to landfills today that will be banned sooner or later. But the main point in the world's waste is in other places, in the growing

megacities of Asia. This is a massively, massive and still growing problem that will create interesting opportunities.

Now, then the question of course is that if these are the change forces around us, that what type of changes will then these megatrends drive in the energy system? This is a simplification of what I'm going to present here. But one quite important change that that will happen one way or another is that there will be hours when there will be a lot, a lot of, energy available at very low cost.

But at the same time there will be hours where there clearly will be a scarcity of capacity. The dynamics of the system will change and it will most likely also mean that the value, the key value in the system will gradually move from energy to flexibility. So whoever is possessing flexible capacity will see that their assets will increase in relative value.

The second change is, of course, decarbonisation, burning fossil fuels and landfilling waste today both being kind of things of the both the present and the past to some extent also in the future, but strong decarbonisation drive of course in the world. What that means to us and to the energy system and especially our part of the energy system, the interesting thing is that we are a very big user of both biomass and waste today in, basically, in our CHP facilities after the ongoing investments will be using about 5 million cubic metres of biomass every year.

And now, the interesting thing is that with certain new technologies and new applications, it will be possible to potentially, significantly increase the value of both waste and biomass. We are in those value chains today. Currently we put those things into boilers and burn them into heat, electricity, sometimes cooling or steam for the industry. As we will see in the Ekokem approach and in some other technology investments that actually I'll be talking with Per about, there will be ways to increase the added value by taking out fractions from

those chains that have a higher value somewhere else than in the boiler. This is going to be an increase in important opportunity for us, directly connected to the energy system, but kind of adding a new dimension to it.

The third very big shift will be the – in general – the role of the consumer and in particular the role of retail electricity business model, it will change, and it will change in a fundamental way. We are all talking about, of course, active consumers in the future. But it's quite likely and I would argue that it's almost certain, that the retail electricity business model will change to something else that we will not exactly today know what it is. It will be different types of packaging of digital content where different types of energy product will be incorporated, marketed, sold and delivered in a way most likely leading to higher switching rates and new types of value-added services on top of energy.

Of course, the margin and the profit that we make in the retail business with our 1.3 million customers today, it is quite small. One could argue that with this change in the model, that may be under threat which is true because the model will change. But we are so small from profit point of view in that business today compared to our overall profitability, but there is actually quite a big opportunity there to increase the relative added value that we provide. Or even in an attempt to take other people's customers away. So I would say that this is more in relative terms on an opportunity side for us. At least the downside is quite small because the profit is so small in that business today.

Then one not very tangible point but still something that I personally believe will happen is the role of new technologies. We have seen what type of disruptions new technologies have done in telecom, in media, in manufacturing, in many other businesses. And energy, especially the utility industry, has been a quite slow mover from this point of view. There hasn't been some – any real big disruptions. Of course, now, solar and wind is creating this certain kind of disruption.

But we believe that with the new digital technologies, with new ways to treat certain local fuels, new applications for demand-supply balancing, etc. etc., we will see a faster change and potential disruptions in the system. Which means that it is important also for utilities as Paris is now doing in his business to have networks out there in the places where the most radical innovation takes place, to make sure that we are competitive in the long term.

Then if I move a little bit more towards the policy environment and regulation of course, a very important thing for us is our position that we want to advocate for market-driven solutions, well-functioning markets including an efficient carbon pricing. I'll talk about that just in a while. Because that in combination with a rapidly falling cost of technology and new RES[?] will allow quite interesting completely market-based ways to decarbonise the system.

One very important point that we are putting a lot of weight in our own public affairs work is the regulatory framework for biomass and the sustainability criteria for biomass that, of course, is to some extent driven by European Union.

As a general trend, we believe that as part of the decarbonisation, when it comes to coal closures and then nuclear closures that we will see in Sweden and in Germany in particular the relative value of flexible capacity and very much hydro will increase. Gas is also flexible. Increasing value in general to RES but especially when it comes to flexibility, hydro and flexible gas will increase in relative value compared to non-flexible capacity.

As I said, well-functioning markets and efficient carbon pricing is really, really a must. We all know that current ETS system, the price is, it delivers currently about €5 to €6 per tonne. It's not very efficient. Of course, it's meeting the emission targets because when you set the gap in the system and you don't trade anything else, what is in the quota, of course,

you do achieve those targets. But our position is that as part of the Paris agreement implementation and as part of the decarbonisation efforts of the world, we need to find a way to strengthen ETS.

There was a big event in Brussels last week where we were one of the sponsors where a lot of European utilities have come together and argued for a strengthened ETS system. There are measures ongoing at the moment. There are decisions about back loading, about market stability reserve which will be operational from January 2019 and there is a plan to reduce the emission cap itself. There is a mixture of measures that could be implemented to make this stronger.

I had a very good discussion with Commissioner Arias Cañete last week in Brussels about these things and my feeling is that in the Commission, there is a strong and increasing willingness to make sure that something is done to ETS. Because we need to remember that the 2 degree goal in the Paris agreement is not currently in sync with the emission reduction targets that the ETS producing. So even if – so already if Europe wants to meet its emission reduction targets, the ETS needs to be strengthened. So already, this is a strong argument.

Now, the so called winter package seems to have leaked out. It was – they were planning to publish it on 30 November. It's now in consultation and it leaked out yesterday and the little we have had time to study, it is suggesting that most of the things in that package seems to be supporting the positions that we have taken. Including decarbonisations through CO2 pricing, very importantly, to integrate all RES into the market so that the producers would bear a true market risk.

Also when it comes to the responsibilities on the balancing market, very importantly integrated end-user markets, deregulated end-user markets, we would like to get rid of

regulated consumer prices in all EU countries and especially enforcing the link between wholesale and retail markets. Because these will be very important for a well – not only a well-functioning market but also if we really want to make sure that we get big masses of consumers to participate in the future demand response applications and that way contribute to people in management and decarbonisation of the system.

Many of these things seem to be included in the package, but of course, it's only a proposal. Now there is consultation with the member states and this is probably then going to be the worry about all the market mechanisms that how strong will Brussels and the commission actually be vis-à-vis the member states? The risk in this whole thing and it's important to be open about the risk also, is that the member states do not want to follow Brussels here and we go back to stronger and stronger national interventions and national support systems which would be counter-productive to a well-functioning market.

I was talking about the technology cost and the rapidly falling cost. While recognising that the costs are falling, it's very important to also recognise that currently when we look at – well, this is now 20 as a reference price here - now the current forwards are slightly higher but this is when you look at the 2020 forwards in the Nordic - in Nordpool - it's not much over 20, that's where it roughly is. When you look at the levelised cost of electricity of almost any or basically all generation forms, you can see that despite the fact that onshore wind is clearly coming down, even offshore wind is now coming down, remembering that the sun will not always shine and the wind will not always blow, which means that the other systems will also be needed and these are not really coming down that much and yet they will be needed.

So when you look at things like gas and the logic here is that the lower part here for gas is for 8,000 running hours and the same for coal, and these are with fuel forwards on the 12 September 2016. So this is fairly fresh data. These would be 8,000 hours and up here

the higher cost would be for gas, 15,000 running hours and for coal 4,000 running hours. You can, of course, argue that – what the right cost for those running hours are, but regardless of where they are, we are still talking about fundamentally higher cost. But you can see here very easily is that the way the market is currently working, it is not able to remunerate for any new investments.

Of course, you can free cash flow positive in many facilities that are already invested and you have depreciated them, you are probably fine even with lower prices. But new investments, new market-based investments are not really driven by this type of situation, despite the fact that some of these costs are coming down. That means that we at least believe that – and the commission seems to agree that something needs to happen.

If we want to be operating in a market-based system in the future, which we believe is the only way to get enough capital into the decarbonisation efforts, something needs to change. We would hope, of course, that that change would be a strengthened ETS, that way higher power prices and then gradually phasing out support mechanisms for new renewables and then after that, taking the whole thing just market based.

Power price development is a big uncertainty for the future. And when you look at – we don't give out our power price forecast even though we of course have very detailed models for different scenarios. But when you look at what the kind of – in the public domain, the analyst, what they are saying, you can see that there are huge differences in opinions as to what will happen after the year 2020. The market forwards until 2020, even though they are now higher for the next two to three years than they used to be, they are still quite low for 19 and 20. And then the market is not very liquid after that, so it's hard to say. But there are, of course, quite many credible factors that will be supporting higher prices in the future. Of course, CO2 price would be the most straightforward way to get there.

Commodity prices had been increasing. That is, of course, a positive driver. Increasing cross-border connections will be an important thing, especially for us who has flexible capacity. Tiina will be showing you a little bit more details about where our capacity is. Just one interesting caveat there and we'll get back to this in more detail is that when Germany shuts down nuclear and when there is continued push to decarbonise and gradually phase out fossil as well, solar and wind will not alone help, something else will also be needed.

Today we have 6 giga watts of interconnections between the Nordic system and the large European markets. In 2023 that will be 12 giga watts. And that, of course, in our strategy is targeted to increase the value of our Nordic hydro assets as potential source for balancing for large central European markets. But it's - at the same time - it's important to be honest and say that there are also then potential factors leading to lower power prices.

If we go back to national climate policies and energy policies, with a lot of national intervention and national support mechanisms that would further water down ETS, that would be a threat to power prices. It is very clear. In general, if investments are remunerated outside the market, that would be a bad signal for us. How is then the demand going to develop? Our estimate is that in the Nordic region, the power price demand increase will be 0.5% per year. Of course, it will vary from year to year but that would be kind of the trend. And that would take the Nordic demand to 404 terawatt hours in 2025.

Now, in 2015, the demand was 389, and here we have a very simple model and then everybody can have their own opinion about things like electric cars. But just for the sake of argument, 1 million electric cars would represent about 2.5 terawatt hours more consumption. Then we have put a negative here for connected homes increasing energy efficiency in homes, residential heat pumps, domestic lighting efficiencies, data centres increasing, one big data centre, one big data centre can be 1 terawatt-hour consumption.

So the strategy that Finland and Sweden are taking and we have an advantage here because of the cold climate when we are attracting data centres and there will be many more in the future, that is a key thing in the consumption, in the future, especially when the industrial demand is not really expected to grow that much. This would compensate a lot of the lacking industrial demand growth. But then, of course, an interesting thing is the – what should I call it, the ‘gadgetization’ of this world and the fact that we are all using so many, many, many more electric devices that will have to be charged. According to many estimates, that will play a significant role, even such a role that could be close to being a needle mover in the world demand development in the future.

In the Nordic system, of course, the role of hydro is very important. Typical production in the Nordic region is 200 terawatt hours per year. The variation between dry year and wet year is about 40 terawatt hours plus minus. These changes have been quite fast and now we are in – we have been in a dry weather. As you can see, the reservoirs are now lower than on the reference level. Week 44 which I think – is it week 46 now, I think, at week 44, the reservoirs were at 88 terawatt hours which is 11 terawatt hours below the average and 17 terawatt hours lower than what they were a year ago. From here, there is of course a direct connection to how much we can produce. And as you saw in Q3, our hydro production, unfortunately, was one-third lower than it was the year before. Again, Tiina will go a little bit more into details. Unfortunately for us in the current situation, the relative dryness is even greater in Sweden than in Norway. And of course, we have most of our capacity in Sweden. Of these total Nordic reservoirs, 70% to 75% are in Norway, 20% to 25% in Sweden and 5% in Finland.

This is how Nordpool system forward for the year 2017 has developed between 1 January 2015 and today. The forward price is given with this grey line here. As you can see, there has recently been a tremendous peak in the price expectation for 2017. Back here in

February, the 2017 price was as low as 16.50 and now, yesterday's price was €30.10. It was already over €32 last week. It is quite volatile.

Some riders, I saw, they call this a perfect storm and we of course need to recognise that there is, right now, a combination of several factors that have led to this peak. There is the dryness in the Nordic hydro system. There is unavailability of French nuclear power plants that will continue to keep – one, there is, as you will see in the next slide, there is significantly higher coal prices out there. It's a combination of several factors – outages, coal prices, dry weather and of course, the fact that the beginning of the winter has been rather cold in the Nordic region, so the demand from that side also has been high.

And we have to recognise that this will most likely continue to be quite volatile also in the future. But with this type of setup that we have had, of course, the one very important and interesting thing to follow which the spread has been supported by the combination of all these factors, especially the dry hydrology in the Nordic region. But the French – yes, the French nuclear outages do play a role here as well. This green – or actually, the blue colour here represents the short-term marginal cost for coal. This down here is the depressed ETS price. And as you very easily and clearly see from this page, so the role of ETS as – CO2 price as kind of a driver in this whole thing at the moment is very weak, which is the reason why we continue to work for it to be fixed.

Not getting into details about coal UB[?] and of course following that development as much as we have, but this is the coal delivered to Rotterdam over €80. This is also very volatile. In the last few days, this has again been dropping up, but of course the driver behind this has been the development in China. China's target to shut down 500 million tonnes of coal production between 2016 and 2021. Now with these price hikes, they actually started to take some action.

They removed some of the working time limitations in coal mines in October and now they – just last week, I think they extended this removal of working time limitations into Q1 just to ease up on the situation. So let's see what will happen here. The market will need to find a balance. But of course, this is one key factor that has been supporting the prices recently in Europe as well. Okay, so that takes us to the end of the first part which is the world around us.

Then if we start thinking about how should we then navigate in this environment? The first thing to note is what there really is in our DNA as a company. I would like to start with a picture that goes all the way back to 1990. This is Fortum's production in terawatt hours between 1990 and 2015. I have divided this here into two different parts. There is the green part and the not so green part. If I just simplify the way how we see – and this is an oversimplification now and I'll get more into details in a moment.

But we want to make sure that this trend, when it comes to CO2-free production, that that will continue. That's the number one thing. So this is a clear target that the green CO2-free production should continue. Then how much fossil production there is, that may actually vary between years and depending on what type of structural development there will be on the market. To the extent we have fossil production, our goal and strategy of course is to work on it to make it as efficient as possible and, of course, participate – genuinely participate in the decarbonisation efforts of the world, including potentially shutting down inefficient old facilities.

That's what I mean when I say that we are – not even when we talk about the capital reallocation, we are not saying categorically no to fossil assets, but they would have to then take a role in the strategy which is kind of main strategy being increasing CO2-free and then there needs to be a plan for the fossil assets. How to maximise the cash flow in the short term, how to decarbonise them, how to make them as efficient as possible and

potentially, if the market so wishes, shut them down. So we continue – regardless of what we will do, we will continue to be, for example, in our policy and advocate for high emission prices because this part will continue to be the key thing in our DNA also in the future.

So this is just the general point that I wanted to make as an introduction to this whole discussion about what we will do next then. And this of course, we have seen this one before. We are among the lowest emitters in the – among all utilities in Europe. In European Union, 97% of our power generation was CO2-free. And of all our power generation which includes the Russian production which is mostly gas, we are at 64%, and this average 177 grams per kilowatt hour produced of course puts us in the category of one of the cleanest utilities in Europe.

When we published the high level strategy in February last year, as you remember, there were four kind of categories – four elements in that strategy. And this is actually also the priority order. Not only for bullets and then on clarity as to what will happen and which order, this is a priority order. I will talk separately about each of these, what it will mean in practice.

Of course, the starting point in any company strategy needs to be the DNA. One of the hardest things in any business is to really change the company DNA. Fortunately, we have the CO2 production in – is in our DNA. And in our DNA is this deep knowledge about how to operate generation assets, how to do demand-supply balancing, how to trade power, how to do combined heat and power production. I mean, they are very important parts of our DNA and they will of course not go away.

Growth engine number one, drive productivity and industry transformation, I will explain what that will mean in practice. This is really the first priority. And the success of this first priority will drive the decision making in the other priorities. Number two priority, solutions

for sustainable cities and after these two priorities, then looking longer term into the future, growing solar and wind and build new energy ventures.

Now I come perhaps to my most important point which is then the prioritisation of the timing of these efforts and what is really going to drive the decision making behind them. I will do that with the help of this slide here. Here I have defined or grouped the efforts into two different phases. Our general goal is to implement the significant part of redeployment of the balance sheet by the end of 2017. It's not an absolute religious target. If we have a great deal in the making in December 2017, of course we will not say no only because we have said that we would like to do this by the end of 2017. So we need to be realistic here. But this is what we are planning for.

Now, the most important question here is that what is driving this redeployment. We have currently 5 billion cash in the balance sheet but also 5 billion debt, so we are more or less debt-free at the moment. We have said that our goal is 2.5 times the EBITDA. The most important thing that is going to be driving the reallocation of that capital is the goal to maximise our cash flow.

There would of course be a temptation to jump directly into the exciting aspects about the future energy system. It is going to be an exciting world. There would be a temptation to jump directly into that. But the more we are modelling different alternatives, the stronger is the conclusion that it does not make sense for us to try to do a giant leap directly into that world. For the simple reason that most of those segments – technologies, generation forms, regardless of the market mechanisms, they are investments which will generate cash, only later.

I would not be able to explain to you, investors, why we would have diversity at the distribution networks with stable returns, quite low returns with the prices that we sold them.

We are talking about kind of mid-single digit returns or something like of that neighbourhood, but still, fairly stable and secure returns. And put up all that money into something that perhaps deliver us cash in the 2020s.

So that's why the priority number one in the capital reallocation will be generation consolidation in Europe. Consolidation of those assets and those businesses that we know best, where we do not necessarily need to learn new things and that will give us direct access to cash flows. I want to emphasise here, Europe, we are, yes, interested in hydro. I explained earlier that we are not saying no to other generation forms either. But the key criteria is that there needs to be existing cash to be made.

The second priority – but it comes in priority order after this one is the widening of the city solution scope. Taking the competencies that we today have in our combined heat and power production and combining that with what we have acquired from Ekokem. There are interesting possibilities there. We have some organic investment ongoing there. There are potential acquisition opportunities also there. To the extent these are made, they would have to fulfil when – and now, I'm talking about acquisitions. They would have to fulfil the same criteria as here that there needs to be access to existing cash flow as we did with Ekokem. Ekokem is an established business with existing and quite strong and predictable cash flow.

Why are we doing this in this order? The reason is actually quite simple. We want to be able to make sure that we do generate cash so that we can use that cash for two purposes. The first purpose being to implement our dividend policy. We understand that for most of our investors, we are a yield stock. We are a yield stock for most investors. Dividend is very important. For dividend, you need cash. It would be detrimental to the dividend capacity to just put billions into the future in energy system just like that. So that's why the cash generation will be driving reallocation. We understand the role of dividend.

Then of course, our goal is to generate so much cash that in addition to fulfilling the dividend policy, we will be able to put money aside in order to invest in phase two which will be there. The reason and the importance of phase two is really to make sure that we are competitive in the long term. Because the world energy system in the 2020s will look fundamentally different from what it is today. There are some known things there. There are also some unknown things. We need to invest, but through these through different phases.

Now, you have seen that we have started investments in solar and wind. They are in priority secondary to phase one when it comes to capital allocation. We have made some important decisions about where and how those will be made. If I take wind first, we have said that in wind and solar, we target a gigawatt portfolio. But here, I want to emphasise that this is phase two. This is not the capital redeployment in the first phase. We want to get into a gigawatt portfolio there in the coming years.

In wind, we have thought really hard about where should we do that investment geography-wise. And there, we need to be able to answer investors understandable question that if investors are to invest in wind through Fortum, why is it better for investors than investing directly into some kind of vehicles that there are out there. The answer to us is that if we invest in our home markets where we have existing operation, where we can leverage fixed costs, existing administration, other assets especially hydro, wind and hydro work very well together and where we have trading.

Then we have other assets in addition to just those windmills in that region which will be able to create in relative terms more value than if we were just a pure financial play wind investor in a country where we have – where we have nothing else. Wind will increase in market share in the Nordic region. Last year, it was about 9% of the total terawatt hours that were produced in the Nordics and that will gradually increase. So already, from market

share defence point of view, we want to be in wind in the Nordic region. But there is a deeper thinking behind this, which Kari will then go into.

So wind, Nordpool and Russia. Solar, you know we are in – we decided a few years ago to enter India. That serves basically two purposes. One is the learning effect, which is not insignificant at all because through what we are now doing in India in solar, we are participating in the most competitive and the most brutal market there is in the world. It's a great learning exercise. But at the same time, we seem to be fulfilling the return targets that we have set ourselves.

Why are these 200 and 400 million important numbers? If you do something, you need to build an organisation, you need to build a certain fixed cost base, it does not make sense to be really, really small. So you have to build some kind of economy of scale in order to be able to leverage your fixed costs. But we also wanted to make it very clear that there is some upper limit to that investment and that is 400 million. Because, of course, India is not directly connected to anything else that we do. And that's why we, in addition to the learning effect which we will then, of course, be able to take advantage of elsewhere, we have decided to make sure that the Indian asset is further developed in such a way that it is also tradable asset if that would be the most desirable outcome in the future.

This is not an indication that we would have decided to sell or anything like that. No, absolutely not. It is meeting its targets at the moment. But we want to make sure that it is structured in such a way that it is tradable. If it is tradable, it also makes it possible to potentially have equity partners in those vehicles in the future. Then there is another aspect to this. That is that even though solar will not play an equally important role here in the Nordic region as it will in some of the sunnier parts of the world, it will gradually start to be a game changer also in markets close to ours. And that's why this learning aspect is so important.

But we are not, again, talking about phase two capital allocation. We are, at the moment, not planning to just copy what we have in India and then start adding new countries. That is not the next step. The next step in solar will be to – and this actually goes closer to system R&D and things like that - the next step after India in solar will be to focus on the system aspects of solar and the interplay between solar and the rest of the energy system and understand that how utility can create value there.

Is it demand supply balancing? Is it aggregation or production aggregation of demand integrating it with energy storage such as utility-operated battery? How that whole thing will work in the future? So the next step will more kind of system R&D type of thing. That may mean that we enter a place in the world where we believe that there's a good development for this type of a system. But the point is once again, not to just copy the investment type that we currently have in India take it to new markets.

Then the fourth and final point about this is the allocation of – and this is indicative now. But allocation of €100 million to €200 million of phase two venture type of investments into potentially new disruptive types of things. This can be done in many ways. This is what I will be discussing with Per in a moment. He is the one who is – who is the organisation driving the technology including investments in internal innovations or external innovations.

This is a very important thing for our long-term competitiveness because if you think about it, utilities and generally large companies are not ones that are the leaders in innovation. Now, we are talking about an energy system shift where the role of venture capital will actually increase because of all the new technologies as we have seen in all other industries also. That's why for a utility like us, it is so important that you have the networks out there in the right places so that we get access to the hundreds and hundreds of different types of innovations that there are out there.

Okay, phase one and phase two, what will this then mean to the dividend policy itself? I said that the main goal of phase one is to maximise our cash flow so that we would be able to satisfy the dividend appetite of the market. When we look at our dividend history, this takes us all the way to 1998. And this 1.1 was 2015 dividend, you can see that it has been fairly stable. The blue colour here indicates the extra dividends that we – that we paid. Those exclude – this has been stable or over the time growing as the target policy also says.

Now when we look at the dividend for the next few years, first of all, we are not going to change the dividend policy itself. But we – it's important to understand the we will look at this also this question through the two different phases where in a way this capital reallocation phase itself is a special phase. It's an exceptional phase. That phase will end when we come to a balance sheet that is efficient, 2.5 times net debt to EBITDA or something of that order of magnitude. During this phase, I want to emphasise what the dividend policy says that the board of directors looks at a range of factors including the macro environment balance sheet strength and future investment plans.

It will be during this redeployment phase which hopefully is not all that long a case by case decision. I'm not today going to give an indication of how much that decision next time will be because we simply do not know it yet. We will in this very volatile market where prices vary and where the investment opportunities also vary. We will decide it when the time comes. But then the dividend policy also says 50% to 80% of earnings per share excluding one off items. Of course, once we are back to a normal or in efficient balance sheet I would say, of course, then it is very clear that for us as for any company, the dividend needs to be sustainable vis-à-vis earnings.

That's why in that post capital reallocation phase, it's quite likely that the driving criteria will be this part of the dividend policy. But until we are there, the relative importance of this statement, what we have up here is bigger. This all, I'm going to say, about dividend. Now, I went through the drivers and hopefully I was able to make my point clear that in capital reallocation, the main goal is to buy something that has existing cash flow as to create an enabler for the overall dividend policy. Now, Per, if you would – we still have half an hour for the rest and then we'll take Q&A as well. Per is –

Sophie Jolly: Fifteen minutes for the rest.

Pekka Lundmark: Fifteen minutes only?

Sophie Jolly: Yes.

Pekka Lundmark: Okay. Then we will be fairly brief but I do not want to steal the show from Per. Now, remember, put everything into perspective and forget the immediate capital reallocation and what will happen in 2017 and maximising cash flow. Jump in to box number 4. This guy, Per Langer, he is responsible for technology and new ventures. So what are you going to do with that 100 million to 200 million allocation that we had as an indication on the slide?

Per Langer: Yes, I could. Good morning. First of all, I want to emphasise. Now we have done the megatrends. We go – we try to look – from technology and new venture, we try to say, how would the system work when this is happening – so in the far end of this? So we divided up this in four different buckets. We said one driver is connectivity. I will come back to this.

One is new technology. How does new technologies change the environment we live in? Then this is normal more R&D the – how can we enhance our current operation? And the fourth, how do we look into new markets? New market could be a new product; for example, charge and drive. A new car needs a loading charge, but it could also be what's happening in Asia, for example, where we don't exist today.

If I take – if I go back and take connectivity, one of the largest – we say renewables needs flexibility. There is nothing else that needs flexibility. And the largest untapped resource of flexibility we have, do we have with customers. Customer is the largest untapped resource of flexibility. We don't use it today in that sense. What does it mean? It means that, today, we try something we call Flexipower. We connect customers' heat-only boiler, we aggregate them and we sell it to the outside market. Customers are needed in the new world.

In new technology, we look how can we apply new technologies into the new system. What happens when PV goes on the surface of material, for example? What happens to our system like that? Then the other part is how do you complement flexibility? So take note that it needs to support wind and sun. It's very difficult to compete with wind and sun today. It needs to complement. Then what we do on current asset base and then far end.

Pekka Lundmark: There is one term that you may want to define what it means. What is Bio to X?

Per Langer: Bio to X is what do we do with bio in the future. Here, we have a bag. It's done from fibres, its' recycled, it's purely from bio. Here, we have another bag. It's done from sugar cane. It's biodegradable. Here, we have another version of a cup that needs a plastic top. So how we use bio in the future. This doesn't mean that we will produce these things. It means that this is needed. Then comes the question, how do we enter into this?

To do all this, in cellulose on bio, you have lignin, you have cellulose and you have hemicellulose. To separate them, you need steam and hot temperature, what do we have a lot. We have a lot of steam, oversupply in many days of the years, and we have a lot of oversupply of heat. We also have a flow of bio.

When we do this, we can extract one or two products out of this and then we burn the rest. This is exactly the same thinking we have had when we did pyrolysis oil, for example. We do something more before we burn and produce electricity and heat. So it's a continuation, it's a new thing but it also enhance our current asset base.

Pekka Lundmark:       Okay, Per.

Per Langer:       Thank you.

Pekka Lundmark:       Thank you. That was short but Per will of course be available here throughout the day if you want to have a more detailed discussion with him about the potential of the fascinating world of technology.

I think that in order to leave time for Q&A, I will now jump directly into a very quick summary. We have slightly updated our vision statement. It now says 'for a cleaner world' instead of just talking about renewable or clean energy, because what Per just described and the acquisition of Ekokem and all the connections to the energy system actually adds a new dimension to it. We wanted to create a vision that clearly incorporates also the circular economy aspects, including its connections to the energy system. It's not energy production only, it's also this wider added value potential of the fuels like biomass and waste.

In our updated mission, we say that we engage our customers and society to drive the change towards a cleaner world. This is very important. Of course, this is a statement for public, for employees, for media and all that, but it's actually more than that because when we talk about the decarbonisation that the world needs to go through, it is a process. This is not black and white, that everything we have today in fossil is bad and everything else is good. It needs to be a process. With this, engaging customers right to drive the change towards a cleaner world, that has a very big meaning. It is a process we are taking.

Our role is to accelerate this change by reshaping the energy system, improving resource efficiency and providing smart solutions in the future, more and more digitally-enabled. Of course, a very important part of the mission is that we believe that this can be done in such a way that we deliver excellent shareholder value.

Then the four strategy elements and once again, without repeating too much of what I already said, phase 1, priority number one; phase 1, priority number two; and then these are phase two type of investments. So thank you very much. I guess we have now quite a lot of time for Q&A.

Sophie Jolly: We have – yeah, correct.

Pekka Lundmark: But there will be additional Q&A opportunities after each presentation. We have agreed that the following Q&As, I or anybody else may also be able to jump in when needed. So this is not the last opportunity to ask questions from me, but let's take the immediate ones now and then we continue.

Sophie Jolly: We have three microphones here. I would ask you to use them so everybody on the webcast can follow. So who wants to be the first one? Let's take here on the second row.

James Brand: Hi, it's James Brand from Deutsche Bank. Just a couple of questions around the capital redeployment. You've kind of highlighted this aim to get up towards the kind of 2.5 times net debt to EBITDA. I guess there's kind of a few questions around that. Firstly, after phase 1, would you ideally be looking to be at that level, or would you be looking to leave a bit more headroom - maybe around 2 times - leave a bit more headroom for some of the phase 2 investments? Or is it the case that you really want to get up to that 2.5 and then just use your ongoing cash flow to fund those phase 2 investments?

And the second question is, to get up to that 2.5 times, and analysts and investors can come up with our various estimates, but that implies around, you know, give or take €4 billion worth of capital deployment - €3 million to €4 million. That's a lot of capital deployment to do essentially over the course of a year. What gives you the confidence that you can execute on that in such a short timeframe? Do you have – of course I'm not expecting you to kind of mention any particular discussions, but do you have any meaningful discussions ongoing in terms of these?

Pekka Lundmark: Your question is very understandable and at the same time also, challenging because some of the larger deals are actually quite binary in their – in their nature. And that's why I said that these numbers and et cetera, they are – they are indicative.

What is slightly less binary, is then the investment opportunities in the City Solutions, because there is a larger number of smaller opportunities. And the kind of fall-back position is that if there is not a larger deal or a combination of a couple of larger deals to be made in the consolidation generation, that would mean that we would have slightly more financial headroom available for the City Solutions expansion. Confidence that can this be done in 2017, that's our goal. But it's not an absolute promise because the only thing I really can promise is that our goal is not to make any stupid deals just because we have said that we need to make deals. So that's the first part of the answer.

Then how much we can invest, now when I said that our goal is to buy something that has existing cash flow, of course how many billions we can invest not only depends on our existing balance sheet but also, it depends on how much existing EBITDA we buy. That will then determine the whole headroom. Then going forward after the reallocation, there is no reason as we see it today to deviate from this 2.5 also in the long term. Of course, this is something that we are following all the time.

The world around is changing, but currently, we are seeing no reason to change it. The goal would be that we would, after the reallocation, we would of course pay, hopefully, a very competitive dividend and at the same time, be able to then put so much money into phase 2 that we are able to stay on that roughly 2.5 times level.

Sophie Jolly: And of course, you can – you can talk to CFO, Timo Karttinen, quite a lot during the break if you want to.

Pekka Lundmark: And this is also actually one of things that Timo will zoom a little bit deeper into in his presentation later today.

Sophie Jolly: Okay. Anymore questions? Let's take one back there, yes.

Pasi Väisänen: Thanks. Pasi Väisänen, Nordea. Then looking into hydropower, I mean in Saint Petersburg, I guess the door is now closed to access hydropower from the area. But then looking at Sweden in turn, I guess how do you see it? Is the door still open even though Uniper actually got listed in the – in owning these assets in the area? So do you still have a kind of possibilities to get this Swedish hydropower business from EON back to Uniper?

Pekka Lundmark: As you very well understand, we are not going to comment any specific names or any targets. We know fairly well of course what the European hydro assets are and we are keeping our eyes open all the time. But any specific targets, I'm not commenting.

The Russian deal, the TGC-1 restructuring, since you asked about that, based on what we see and know today, that does not seem to be a realistic short-term target. But we are not excluding anything in terms of Russian restructuring in the long term. If there is a way to come back to that one way, absolutely. This is one of the things that we could be interested in if it is a good deal, but it's nothing something that will most likely happen in the near term.

Pasi Väisänen: Yeah, thanks. When looking at today's nuclear power side, I mean if there is a chance to get an extra stake from Olkiluoto 3, would you be interested from that?

Pekka Lundmark: We are first of all seeing that nuclear will be needed in the future in the Nordic system. We have a strong heavy industry that will need high quality electricity, high quality power. And that's why nuclear will play a role in the Nordic system for quite a long time, which is the reason why we are supporting projects like Olkiluoto 3 through our 25% ownership and Fennovoima through a 6% ownership. But then, of course when it comes to specific potential deals, the same applies as to your previous question, that we are not commenting them.

Pasi Väisänen: Okay, great. Thanks.

Sophie Jolly: Thank you. Okay, it was the same. Any further questions? Okay, let's take one more aback there and move in front up here. Yeah.

Sofia Savvantidou: Hi Sofia Savvantidou from Exane. A couple of questions from me.

Pekka Lundmark: Can you raise your hand so that I see? Oh, hi.

Sofia Savvantidou: Sorry, here on the back. The one that came in late. A couple of questions from me. So first of all on your redeployment of your capital, if you can give us a little bit more colour maybe on the returns? You're targeting it seems the 10% long-term return that you're looking at but is this what you are getting, for example, through the Ekokem and the DUON transactions? And how are you going to re-evaluate whether you're really adding value through these transactions?

And the second question is on the dividend. I appreciate sort of you've given already some colour and it's up to the board to make final decisions. But in your opinion and your assessment, you've talked a lot about growing the cash the flow and the sustainable dividend and growing dividend. But can you give us a colour on whether the level that we have seen last year on the dividend, the 1.1 is the starting point or is this a lower point that we could be having in the future?

Pekka Lundmark: Unfortunately, I have to slightly disappoint you on the dividend that I'm not going to get into more details than what I just said so I'm not going to comment whether it's a starting point or anything else. It will be a separate decision that will be made based on all those factors that I – that I listed.

And, again, remembering the volatility on the market. Absolutely, one of the key things that we will look is that what is then the oil price outlook then? That how much cash with our existing assets, how much cash we have then when the decision will be made? We are expecting to be able to generate in 2017 and 2018 so it's one of the factors.

Now, of course when we look at new investments, we look at them through the glasses of our financial targets including the group target of 10% return on capital. Often in many

cases when you look at the initial investments, it's not there immediately but then after the presence[?] starts kicking in and depending how power price development goes, you will actually get there. But power price is really, when we talk about generation consolidation, oil price is by far the biggest uncertainty.

When you now look at – I'll just take us an example now. Of course, currently we are in the group well far beyond those targets because we have 5 billion cash not generating anything. But on the other hand, last year our achieved power price was 33 and if you just take the generation division and its asset base, I think we're somewhere around 5% for the generation division slight – no, actually, 6%. Slightly higher than that. That was with a €33 achieved price. So from there, it's quite straightforward to calculate that where the power price should be with the current fleet if we want to it to meet that target. The City Solutions last 12 years just for that division return on the net assets between 7% and 8%. The same is roughly true to the Russian division as well.

We are not that far from that in the current oil price environment, but then of course, what will the prices be in the future? That's why when we are talking about that 10% target, we are saying that it's through a cycle, through various types of kind of commodity cycles, and a kind of an average, normal environment in the world when it comes to interest rates to commodities, et cetera.

If you are working in a 0% interest rate, no growth environment, of course that increases that degree of difficulty when it comes to target. Since you asked about DUON and Ekokem, when you just take the pure Ekokem business standalone as they were doing before the acquisition, they were actually generating something around 15% to 16% return on capital on their assets in most of the years.

That says something about the pricing power and the competitiveness of that business model that they have. Because compared to the traditional utility model, the kind of importance of differentiation and unique solutions, unique expertise, is higher which also then gives you higher pricing power. There's quite interesting development opportunities there as you will see in Markus' presentation where we would absolutely assume that at we can at least meet that 10% target.

Artem Beleski: Yeah. Artem Beleski from SEB, continuing on City Solutions and the Ekokem, what comes to widen in scope, how much of it you expect to be, let's say, organic investments compared to acquisitions to be done going forward and what is potentially, let's say, timeframe in terms of scale and capability and what you acquired to draw Ekokem?

Pekka Lundmark: First of all, since the number one priority in capital reallocation will be generation consolidation in Europe, as I said, the success of that priority will determine how much capital we will put into the close of city solutions including Ekokem.

With that caveat, I'm unfortunately just going to suggest that I'm unable to answer your question because we simply do not know. But what we do know, though, that there are opportunities. I mean we are – the bottleneck is not the number of interesting opportunities. I mean Markus has this long list of opportunities all the time. We are having an interesting discussion now that let's now take care of this priority number one first and then he will know how much he can – how much he can spend.

Artem Beleski: Okay. So maybe a second question regarding priority number one and the scope of consolidation. So you are talking about hydro and European market. Could you provide some colour of how you think about Nordics versus continental Europe. Of course, it's – everyone understands that the Nordics would be a sweet spot for you get getting synergies

and so on. But at the same time, power markets are getting more and more connected over time, so it might get interesting to be involved also in continental.

Pekka Lundmark: Yeah, yeah. That question is spot on because the power prices are [inaudible] prices also, but the markets are getting more connected, which does gradually increase the attractiveness of other locations also. But still I would say that the closer to the home, the better. So the home markets would be the first priority.

Then we start to kind of in circles go from there, meaning that then the next priority would be the regions closer and then when you move closer to the Southern Europe, then the priority gets low. But still, the scope – the scope is Europe. We are not looking for consolidation opportunities in Latin America, for example.

Artem Beleski: Okay. Great. Thank you.

Sophie Jolly: Okay. Any other questions? We have up there.

Andrew Moulder: Hello? Yes, can you hear me? It's Andrew Moulder at CreditSight. I just wanted to say, you said that you weren't saying categorically no to coal fired generation. I just want to know, what did you exactly mean by that? I mean what would make coal assets attractive to you to buy, given that you have a general overall strategy of reducing your CO2?

Sophie Jolly: Pekka actually said fossil fuel.

Pekka Lundmark: Yeah, I did, I said fossil – that we are not categorically saying no to any generation type, especially if there would be combinations of assets where also fossil would be included. But the priorities in CO2 really – now, to your real question that what would then make a fossil asset attractive? It would have to be something that would have quite short

payback time. Attractive short-term cash flow, short payback time because we are absolutely in the camp that says that decarbonisation needs to happen. We are not going to change that view. But that does not mean that if the prices are right, ie, low enough, that there will not be a short-term cash flow opportunities at those assets as well.

Andrew Moulder: Sorry, can I ask just one more question. I had one question for Per actually. He said that customers were a large untapped resource of flexibility. Again, I just want to kind of clarify, what exactly does he mean by that? Because I mean, are you talking about you could manage supply and demand through the relationships you have with customers or is it just a kind of one way street where yes, customers are flexible, but really you only see the demand from customers going up?

Per Langer: What I tried to say is that today we don't use customers' flexibility or inherent – in the water tank they have at home - everyone starts their heat pump in Sweden 15 minutes after you have turned off the shower. It doesn't need to be like that. You can – we can create a smarter system that allows this to start a bit later.

Once again, this comes later but at the same time, it's a big untapped resource of flexibility that we haven't used, the system haven't used this. I believe there will be many models for this to – how to bundle this together and aggregate it and find it. There is other examples of this. You have Uber, you have Airbnb where utilise assets base in a different way. Electricity cars becomes – we discuss storage, storage, storage. In electricity cars, you have the storage and it's on the driveway on the garage 95% of the time. It means it can be part of the system. I will say, this will come a bit later. But this is something that society needs to get to work. Otherwise, this system will have very, very difficult work.

Andrew Moulder: Sorry. And since I've got the microphone, just one more question. You've talked about the capital reallocation in 2016-2017, but you've said, we're not really in a rush and

it might not quite be done then. I mean, how much time are you really giving yourself? What happens if we get to 2020 and you still haven't done it? Is then all the money can go back to shareholders?

Pekka Lundmark: Hopefully, we would not get into that situation because as I said, we have – in case they would not be attractive generation consolidation deals available in Europe, that would then mean that in relative terms, we would increase the speed in investment in attractive City Solutions, growth opportunities. I would say that the likelihood that we would not be able to do anything meaningful by 2020 is very low.

Sophie Jolly: One more question and then we will go for a break.

Philippe Ourpatian: Yes, good morning. Philippe Ourpatian from Natixis. Just to rebound on a question, it's a short-term strategy, 2016-2017. You are mentioning that generation in Europe, it's the phase 1 of your strategy, increasing your capacities. If you we are just looking through another angle, the question is, what's going to be the probability, below 50% or above 50%, to deliver something quite significant on the phase 1 in European generation in the next two years? Where are you exactly?

Pekka Lundmark: Now, the questions get even more difficult. And here, look, I'm –

Philippe Ourpatian: We need a break.

Sophie Jolly: Yeah.

Pekka Lundmark: Exactly. We need a break soon, but –

Sophie Jolly: Yeah. We are not going into statistics, though.

Pekka Lundmark: We are not going into statistics, but of course – the thing is that it's quite binary.

Philippe Ourpatian: Yeah.

Pekka Lundmark: And there is a number of assets and we know them very well. I'm not going to mention any of them. There are more attractive assets. There are less attractive assets. The buyer and seller need to meet in terms of terms and conditions and the price. And how will all this will play out? I'm not going to give you a percentage unfortunately.