

Fortum International Media Conference Call

Presentation

Arto Rätty

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Good afternoon, ladies and gentlemen. I am Arto Rätty, Senior Vice President, Corporate Affairs and Communication. Welcome all, also on behalf of my colleagues, to today's conference call. We are here to discuss the release we published earlier today concerning a potential transaction regarding Uniper. Today's call will be hosted by Fortum's CEO, Pekka Lundmark.

Following the call we will take questions. We ask your understanding that this will be a short 45-minute call, in that we are limited in what additional information we can provide today. After this call we will have a separate investor call, so we will now prioritise media questions. A recording of this call will be made available online on Fortum's corporate website. The call will be in English, but we are happy to take questions also in Finnish and Swedish. I would now like to hand over to Pekka.

Pekka Lundmark

President and CEO

Thank you very much, Arto and good afternoon, ladies and gentlemen. Thank you very much for joining our conference call today. As you have seen, we have today confirmed that we are in advanced negotiations - and I emphasise negotiations, we do not have a deal - with E.ON regarding their 46.65% shareholding in Uniper. If an agreement was to be reached, we would launch a voluntary offer to all Uniper shareholders and E.ON would have the option to tender into such an offer at the beginning of 2018.

The total offer value to be received by tendering shareholders would be €22 per share, including the value of the expected dividend of Uniper for 2017 of €0.69. The total value implies a premium of 36% to the price prior to intense market speculation on a potential transaction at the end of May, as well as a 120% premium to the initial trading price post spin-off of €10.

The offer would not be subject to any minimum acceptance threshold. Any offer would, however, be subject to customary regulatory approvals. The offer would be an

attractive opportunity for Uniper shareholders to capture the full value of their investment. Uniper shareholders could lock in the significant share price gains related to a significant degree to the prolonged takeover speculation in recent months.

The transaction currently under discussion is grounded in a strong strategic and financial rationale. The investment would deliver on Fortum's previously announced disciplined capital redeployment strategy and investment criteria. Uniper's businesses are well aligned with Fortum's core competencies, are close to Fortum's home markets and are highly cash generative.

If this transaction was to be completed, it would be a powerful proposition to accelerate European energy transition. The transaction would deliver on Fortum's business strategy, investing in a diversified European generator with attractive hydro assets and a platform for growth. The investment in Uniper would deliver on Fortum's previously announced disciplined capital redeployment strategy and would contribute towards stable and sustainable dividends for Fortum's shareholders.

Fortum and Uniper would have the strategic mix of assets and expertise required to successfully drive Europe's transition from conventional to cleaner and more secure energy. We are convinced that the close cooperation of the two companies would render significant benefits for all stakeholders, as there are many strategic and operational touchpoints between the portfolios of Fortum and Uniper.

Uniper's production fleet is one of the most efficient and most modern fossil production companies throughout the world. Uniper has a significant hydropower fleet, both in Sweden and in Germany. They have a strong presence in nuclear power in Sweden and a large energy trading business. We expect that there will be very interesting cooperation possibilities between the two companies.

I want to be clear, this is not a takeover; it's a significant investment. We hold Uniper management in extremely high regard and intend to be a long-term investor in Uniper. We take our responsibility to all stakeholders very seriously. Fortum would be a long-term supportive and reliable shareholder, committed to protecting the current interests of Uniper's employees and other stakeholders.

As of today, there can be no certainty whether discussions with E.ON will result in an agreement and hence whether an offer will be launched. That's why we will also not speculate on the timetable or the outcome of the discussions with E.ON and we will, of course, make further announcements only if and when appropriate.

Thank you very much and now, operator, we would be ready to take questions.

Q&A Session

Lars Paulsson - Bloomberg News

Good afternoon. I'm wondering if you think there could be other potential bidders for Uniper and my second question is how much does the recovery in power prices play a role here in this offer? Thank you very much.

Pekka Lundmark

Well first of all, of course, it is not for us to speculate on your first question. We are now focusing on this deal and this negotiation that we have ongoing with E.ON and there's nothing else that we would like to speculate or comment on.

Then to the second question, it's a known fact that power price development affects the earnings potential of all generators. That is true to Fortum, that is true to Uniper, that is true to all market participants. But we have a policy of not commenting or not publishing our power price forecasts, so that's why unfortunately I'm not able to get any deeper in that question.

Jussi Rosendahl - Reuters

Yes, hi, good afternoon. Just wondering, given that Uniper has lots of coal-fired power production and Fortum is mainly interested in hydro and nuclear, just wondering how do you see the Uniper portfolio fitting in your strategy in general. And a follow-up to that, what would be the plan for the other assets, so to say?

Pekka Lundmark

We are now focusing on the E.ON stake in Uniper and as I said, we look forward to being a constructive partner and shareholder in Uniper and it's, of course, the Uniper management that would run the company in that situation.

If I comment from a general point of view, we believe that this transaction would be able to speed up the European energy transition. We need to remember that the energy transition is about decarbonisation, which is extremely important. It is about security of supply, which is very important to consumers. It's about flexibility and it's about affordability. And in this transition you are going to need multiple assets. This does not change a bit Fortum's vision for a cleaner world and we have said in our strategy and in our capital or investment priorities that one of our key goals is to invest in assets that have a significant CO₂-free production capacity.

And we need to remember that Uniper is absolutely not only about fossil fuels; it is a company that has about 300 power plants, out of which 200 are hydro power plants and then there is obviously the Swedish nuclear position as well and they have a sizeable trading business too. So it's about many, many other things than traditional fossil production. Fossil production has a role in the energy transition in many parts of Europe.

Those assets will be needed for security of supply, but we continue to be of the opinion that decarbonisation will need to be very high on top of societies', countries' and companies', including ourselves, agenda. And there are plans in most countries where Uniper operates to gradually phase out coal and we would, of course, be extremely committed to supporting those plans going forward.

Unidentified Analyst 1

Thank you very much, I have two questions. Can you both promise that the headquarters of Uniper will remain in Dusseldorf? And do you see synergies between the two firms? And will you therefore cut jobs to realise these synergies? And my third question, will you respect the assurances and rights of the employees of Uniper?

Pekka Lundmark

Thank you, all three are excellent questions and I would like to start by repeating that we are looking forward to becoming a partner and an active and committed and supportive shareholder in Uniper. This is not a takeover; this is an investment and we would expect that Uniper's management would continue to run the company and in this situation obviously there is no reason why we would be pushing any different agendas than what they currently have. So the answer to the headquarters question is very simple; we see no reason to any changes there.

There are cooperation possibilities between the companies in countries where we have complementary presence and we would be open to discussing with Uniper management how those cooperation possibilities could be realised in practice. But since this is not a takeover, this is an investment, we are not in a position to talk about any traditional synergies. And then, of course, as a shareholder we would absolutely support the commitments that the management would have made or would make towards the different stakeholders, including employees.

Heta Hassinen - Finnish News Agency STT

Thank you so much, I would like to ask my question in Finnish.

[14:15 to 15:05 spoken in Finnish]

Unidentified Analyst 2

Hello, this is [inaudible] from Tagesspiegel, I have two questions actually. The first is regarding the price offer you are making, €22. The price of Uniper has already risen above €22, so the market seems to price in a little bit of a bidding war here. Would you be able to react to such a development and maybe increase your offer?

The second question is about the political background. We all have in mind the example of Vattenfall, who had huge political problems with their carbon intensive investment in Germany and this issue has already been raised. Fortum has a very small footprint at the moment. Do you have the full backing of the Finnish Government for this takeover?

And also are you aware how would you react to the political uncertainty regarding coal in Germany? We have general elections and there could be hard or not so hard decisions about the future of coal actually during the time of your offer. So that would be interesting as well.

Pekka Lundmark

Okay, may I start by correcting the statement in your question. This is not a takeover; this is an investment.

Unidentified Analyst 2

Sorry, yes, okay.

Pekka Lundmark

With that note, the first question about price, this is the price that we have in principle agreed that the offer would be if we reached an agreement about the stake and the offer, that would be the price. And we believe that this offers good value, it offers a good possibility for shareholders to lock in the significant appreciation in the share price that has been seen over a longer period of time, certainly to some extent driven by the

speculations about a deal of this nature that is today being discussed. So that is the price and we are going to stick to that price.

Then when it comes to the political backing, obviously we are a listed company. Our board has an authority to decide on transactions like this, but we have every reason to believe that we would get the necessary backing from our owners for a transaction like this. We are not worried about that.

And then when it comes to the German political situation, here we of course again need to emphasise that we look forward to becoming a shareholder that would support Uniper's management. And I have full confidence to Uniper's management that they will have all the expertise needed to deal with the political landscape, including the questions about coal.

Swetha Gopinath - Mergermarket

Hi, good afternoon. My first question is how will Fortum finance the deal? And my next question is if there will be any asset disposals post-deal close, where you use your stake in Uniper to force them to dispose of some of their more traditional coal assets.

Pekka Lundmark

If I take the second question first, I again now repeat that we look forward to becoming a shareholder in the company. So as part of this transaction there is nothing like what you just referred to on our agenda. We look forward to becoming a shareholder.

We have a significant amount of cash on our balance sheet and on top of that we have committed financing available, even after that full amount of 100% of shares. But once again, we are now focusing on E.ON's share. So financing is available through existing facilities and existing commitments, so it is there.

Jussi Rosendahl - Reuters

Hi again. So can you give any comment on how would you see this potential investment, if it goes through as planned, affecting your dividend policy? You've said previously that dividends will be case by case decisions during the capital reallocation phase. So any comment on that?

Pekka Lundmark

The question is a challenging one to comment at this stage, since we do not know the outcome of this deal. So we need to come back to that one later. I repeat on a general level though that the whole point in our capital redeployment strategy, as you may remember, is to invest in assets that are cash generative. And the reason for that is that we want to create a portfolio of assets and investments that is generating enough cash so that we are at the same time able to pay a competitive dividend and invest in new technologies and services that will be needed in the future energy system.

So from that point of view, in addition to the earlier transactions that we have published [inaudible] restructuring earlier, this continues to build support to our dividend in all scenarios. But this is all I can say about the dividend question at this stage.

Lars Paulsson - Bloomberg News

Hi again, so Uniper just published their own press release here and they say that the offer is unsolicited and not in line with the company's strategy and that they wish to remain the way things are. What's your immediate comment to that?

Pekka Lundmark

Well as I said, we are focusing on E.ON's stake and as E.ON has said publicly for quite a long time actually, that they intend to sell. Uniper has been saying that they are looking for long-term partners. We believe that we would be a good partner and since E.ON is planning to sell their stake, we of course are interested because we see a lot of cooperation possibilities between the two companies.

You may have noticed in the release that we put out that we did approach Uniper earlier this summer with a proposal to negotiate a full combination of the two businesses. But that proposal was not supported by Uniper, which is something that we absolutely respect.

But coming back to the fact that E.ON is selling in any case, it means that whoever takes that stake automatically goes above the mandatory offer level according to the law. So the tender offer that we will publish is going to be a natural and unavoidable consequence of acquiring E.ON's stake. So that's what we are going to do and once again, it's not a takeover; it's an investment. We are looking forward to working together with Uniper's management. We hold them in very high regard. They have done an excellent job in the development of the company.

Lars Paulsson - Bloomberg News

Thanks. Have you spoken to any of the other minority shareholders? And what's the view from them on your approach?

Pekka Lundmark

We have not spoken with any of the other shareholders.

Lars Paulsson - Bloomberg News

So a final question from me. Shares are already trading above the offer price, which seems to indicate that the market thinks that there might be something more from you coming. How should we interpret that?

Pekka Lundmark

This is very simple, this is the only offer there is.

Petri Sajari - Helsingin Sanomat

Good afternoon, this is Petri Sajari from Helsingin Sanomat. Just one simple question, how long have you been negotiating with E.ON?

Pekka Lundmark

We have been negotiating with them for some time already, but we will not get into more details about that. But this has been going on for quite some time already.

Petri Sajari - Helsingin Sanomat

Is it weeks or months or years?

Pekka Lundmark

No further comments, I'm sorry.

Unidentified Analyst 3

Hi, it's [inaudible]. I'm interested in Fortum's businesses in Russia and how this cooperation would affect that. I know that both Uniper and Fortum own some power plants in Russia and I'm interested in what do you think about the risk in the business in Russia in the moment. And do you have any plans for expansion in Russia?

Pekka Lundmark

Again, I want to emphasise that we are only intending to become a shareholder in Uniper, it's an investment; not a takeover. But you are absolutely right, that both companies have quite significant assets in Russia. That's why Russia is one of the places where there could be cooperation possibilities between the two companies and this is something that we would be happy to discuss with Uniper's management. This is something that would then be a separate issue from this buying E.ON's stake, that's a different question.

There are risks in every market. I can comment only how our development has been in Russia recently. And we have been quite pleased with the operational aspects of our business. The resulting developing has been positive and despite the political tensions and turmoil, our business has been doing quite well and we've been actually - we have already reached the profit level that we have defined, set ourselves for the assets that we have there. So we are cautiously optimistic, but of course recognising that there are risks in all markets.

Arto Rätty

Thank you very much and thank you very much for your questions. I hope you got all the answers you wanted. We will [inaudible] at 17:00 Finnish time, we will have an investor call. So thank you very much and goodbye.

[End]