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# Transcription

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**Speakers: Måns Holmberg, Pekka Lundmark and Markus Rauramo**

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## Presentation

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### Måns Holmberg

So ladies and gentlemen, good afternoon and welcome to this analyst 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 our CEO, Pekka Lundmark and our CFO, Markus Rauramo. We will start with a short introduction from them. We are not showing any slides, and after that we will have time for questions. All in all we have one hour scheduled for this call. But I would now like to hand over to Pekka.

### Pekka Lundmark

Thank you very much, Måns. Dear investors and analysts, thank you very much for joining our conference call. As you have seen, we have today confirmed that we are in advanced negotiations, but only negotiations, there is no deal yet 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 EUR 22 per share, including the value of the expected dividend of Uniper for 2017 of EUR 0.69. The total value implies a premium of 36% to the price, prior to intense market speculation on the potential transaction at the end of May, as well as a 120% premium to the initial trading price post spin off of EUR 10.

The offer would not be subject to any minimum acceptance threshold, but any offer would 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 statistical and financial rationale. The investment would deliver on Fortum's recently 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 vision and 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 deployment strategy and would continue towards stable and sustainable dividends for Fortum 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 a close co-operation of the two companies would render significant benefits to all shareholders as there are many strategic and operational touch points 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 co-operation possibilities between the two companies.

I want to be very clear: this is not a takeover; it is a significant investment. We hold Uniper management in high regard. They have done a great job in building the company. We intend to be a long-term shareholder and 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 core 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. And this is also why we are not going to speculate on the timetable for the outcome of the discussions with E.ON and we will of course keep you posted and make further announcements if and when appropriate. So thank you very much, and operator now we will be ready to take questions.

## Q&A

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### Operator

Thank you. Ladies and gentlemen, if you do wish to ask a question, please press zero one on your telephone keypad. If you wish to withdraw your question, you may do so by pressing zero two to cancel. So that is zero one to register for a question. Please note that you are only allowed to ask two questions at a time and then you have to register in the queue again. Our first question comes from the line of Vincent Gilles from Credit Suisse. Please go ahead, your line is open.

### Vincent Gilles

Yes, good afternoon everyone. I guess that's me. Two questions, the first one is could you come back on the last point you made. Why do you make an announcement today, because we are all aware of this issue with the tax in Germany and we would reasonably have assumed to get no news until early next year, so you must have talked to the tax man in Germany to get confident enough to come out with a statement today, so why the statement today, basically?

And second question, can you help us understand the impact on your net debt to EBITDA of such a transaction? Obviously you are aiming for 100% of Uniper and on the back of an envelope calculation you would be close to 4X net debt to EBITDA, which may not be compatible with the type of assets you will own, therefore maybe do you consider disposals? Thank you very much.

### Pekka Lundmark

Okay, thank you. The first question, the answer is actually very, very simple. There was an article published by Bloomberg earlier today that contained detailed enough information that we came to a conclusion and E.ON came to the same conclusion that it is our duty to confirm to the market that we are – that we actually are in advanced discussions. So this was the reason why both companies published the release today.

Then the second question, you said that you are targeting 100% of Uniper; that is not what we are looking at. We are focussing in this transaction first and foremost on the E.ON stake, which is a little bit below 47%. And hence we are publishing the share price and we have also then published of course in our disclosure our numbers. Investors will then be able to model in what this would mean to our financials. But I could just say though, as one number is that the value at this share price for the E.ON stake is actually pretty close to the amount of cash that we have on our balance sheet.

Then the final comment, unrelated to this transaction directly, as you know, we have a long-term net debt to EBITDA target at 2.5 and as we have said multiple times, that is our long-term goal. If we are below it we would have a target to increase it, and if we are above it we would have then a target to decrease it. But these are long-term targets and this is what we are aiming at in the longer term, so in a shorter time perspective we could be below or above.

### Vincent Gilles

Thank you very much.

### Operator

Our next question comes from the line of Deepa Venkateswaran from Bernstein, please go ahead, your line is open.

### Deepa Venkateswaran

Thank you. Two questions from me. Since you said that this was largely about the E.ON acquisition but you also mentioned that this investment will help you with your own dividend pay-out ratio, etc. I was wondering whether you would need to at least be 51% in order for you to fully consolidate Uniper earnings or will you reach your financial target even with 47%?

And my second question is: the combined CO2 intensity of your company and Uniper's will breach your current stated target of I think 200 grams, so I was wondering whether you would then change the goalposts or would you basically not consider Uniper at all because you would classify it as an investment and therefore ignore the CO2 intensity of that fleet? Thank you.

### Pekka Lundmark

Once again we are focussing on the E.ON stake and with that stake, when we talk about our dividend capacity, of course, what is then important is how Uniper will develop as a dividend payer and that is the only thing that we would be receiving. And Uniper's businesses are highly cash generative, which of course creates good prerequisites for dividends and this has also been noted by investors. So from our dividend capacity point of view, this would then contribute to what we have been doing earlier. I want to refer to the earlier announcement of this year of the restructuring acquisition of Ekokem last year and some of the organic investments that we have made. And all these combined will then support our overall dividend capacity.

Then when it comes to the emissions target, it is, of course the exact number is always subject to the type of portfolio that we are looking at, but here again we are focussing on the minority stake, which is just under 50% - under 47% - so that is not directly relevant. Going forward of course we would evaluate what type of portfolios we will have and we will have a continuous target and policy to drive the European energy system towards de-carbonisation in all different kinds of portfolio scenarios.

### Deepa Venkateswaran

Thank you.

### Operator

Our next question comes from the line of Sal [inaudible] from Bernstein. Please go ahead, your line is open.

### Deepa Venkateswaran

Sorry, I think that's a question from me, if you can cancel it?

### Operator

Okay, not a problem. So our next question comes from the line of Sam Arie from UBS. Please go ahead.

### Sam Arie

Oh hi, yes, thank you. I have two questions and the first one is: obviously you've been comfortable to release the price that you're talking about today, but you've also said still subject to agreement, so it would be really helpful if you could give us a sense of what still remains to be agreed and, you know, what getting this agreement concluded would depend on?

And then secondly you mentioned in your summary that there were, I think you said, many interesting co-operation possibilities between the two companies, and I suppose some of us might be thinking about that in terms of synergies that there may be. So could you just talk about where you see those possibilities and whether it is fair to expect some synergies even if you had only a 47% stake in the company? Thank you.

### Pekka Lundmark

Yes, synergy is not really the word that would be appropriate because we are, as I said, we look at the situation where we would be a shareholder and a partner and since our businesses in certain markets are highly complementary there would be interesting co-operation possibilities that we would be open to discuss with Uniper's management, but that is subject to those discussions being successful, of course. So synergy is perhaps not the immediate right word to use in this case.

Then what still needs to be agreed upon, I do not want to get into details. We mentioned in the press release earlier today that there are still some authority-related discussions that will need to take place, but I will not get into details about that.

### Sam Arie

Okay, I thought you might defer on the latter question. On the first question, on the co-operation possibilities can you just – I mean you are saying again that there are some, but can you just give us a flavour of what you think those would be? I mean are

you thinking about co-investment opportunities, about contracting between the companies, sharing services – so just to get a sense of how you see that?

### **Pekka Lundmark**

This is something that I do not want to pre-empt because we haven't even had those discussions yet, so – so time will tell. We see interesting possibilities looking at how complementary the portfolios are in certain markets, but obviously we would need to discuss this with Uniper before we would be ready to make any statements.

### **Sam Arie**

Okay, fair enough. Thank you all the same.

### **Operator**

Our next question comes from the line of Ingo Becker from Kepler Cheuvreux, please go ahead, your line is open.

### **Ingo Becker**

Yes, thank you. I am Neil Becker from Kepler Cheuvreux. I am still a little bit puzzled to understand what you are really doing. On the one hand you are saying that Uniper shareholders can realise the full value of their investment; on the other hand the question would pop up: what then is left for you as you yourself seems to predominantly see it as an investment. On the other side you are launching, or planning to launch, a take over bid, which raises the chance clearly that you end up with the majority, that you would consolidate. So I am wondering is – are you predominantly believing that this is a good investment for the financial power – the financial firepower you have? Or do we have to see this on a wider basis that you are enlarging the group? And then if that still fits into two questions, I would wonder why you take on a lot of CO<sub>2</sub>, a lot of conventional assets on the continent? You essentially would double up in Russia, why this is the direction you feel this is appropriate in taking? Yeah, thank you.

### **Pekka Lundmark**

Okay, that's – this is – especially the second question is of course extremely important when it comes to the energy transition of Europe, but I will come at that separately. We are once again really focussing on the E.ON stake and that is what we have been negotiating about. We believe that it would be a good investment as such, because we believe that Uniper has competitive assets, the business is highly cash generative, they have things in the right places at the right times, so we believe that from an investors' point of view this would be a good investment. At the same time, when you look at what the law provides for when you do a deal where your shareholding goes to this level, you are obliged to make a tender offer to all shareholders.

We are completely open-minded on this. We are focussing on E.ON's stake but if there are other shareholders who would be willing to realise and lock in the significant value appreciation that there has been in the share in the recent months, also driven by the speculations, we would be happy to do that, of course. That's why – that's what we are doing as a tender offer but that is not what we are primarily focussing on right now. It is the E.ON stake.

Then when you talk – when we talk about the portfolio, we need to remember that the energy transition is about many things. It is very much about de-carbonisation, which has been high on our agenda, continues to be extremely high on our agenda, but it is also about security of supply. It is about flexibility in assets. The more renewables there is in the system, the more flexibility will be needed. And it is also going to be very much about affordability of energy to consumers, both private consumers and industries.

And when you take all these things into account, this is not a black and white situation that everything old would be bad and everything new would be good but it's really a transition we are talking about. And we believe that with this type of a portfolio, that Uniper has one company and Fortum has one company and through the co-operation possibilities we will be in an excellent position to drive this transition.

We also need to remember that Uniper is absolutely not only about fossil production. They have a significant hydro fleet in Sweden and Germany, which is, from capacity point of view, actually about 80% of Fortum's hydro fleet. They have a significant nuclear position in Sweden and then they have a sizable energy trading business as well. So this is about many, many other things than just fossil production.

And specifically looking at the fossil production, compared to some other fossil generators we are pleased to have observed that Uniper's fleet is clearly one of the most modern and efficient among that peer group.

**Ingo Becker**

Thank you.

**Operator**

Our next question comes from the line of Jack Elgart from Halcyon Capital Management, please go ahead, your line is open.

**Jack Elgart**

Hi, thanks for taking the time to answer our questions. I just had the one question, I know you've been mentioning the 46/47% of the stake. Do you have any plans to go above that in open market purchases? And then the second question I had is just on the combined CO2 intensity of the business. How much of each business is carbon yours and your target? Thank you.

**Pekka Lundmark**

Now the second question I don't think we would get into this at this call. Both companies have published on their disclosure the carbon intensity, so that is information that is in the public domain. And then to the second question, once again we are now focussing on the E.ON stake. If we reach an agreement that would then lead to us launching a public tender offer to all shareholders, and this is the only transaction that we are contemplating and there is nothing more we can comment about the likelihood or timing of this deal potentially going through.

**Operator**

Okay. Our next question comes from the line of Caesar Colombo[?] from [inaudible] Asset Management. Please go ahead.

**Caesar Colombo**

Hi, good afternoon, thank you for your time. I have two questions. The first one is, I mean of course you are going for the 47% stake but I mean in perspective, given that Uniper is a diversified company, not only with power generation but with the mid-stream gases and power generation in different countries, let's suppose that everything is not interesting for Fortum, that may change if you reach the 51% against the simple 47% stake. So if you have control of the company then what disposal of assets?

And my second question, you have been very clear that I mean Uniper stake helps you to have a better dividend coverage. And so I suppose that you make a lot of calculation but I don't know if you can answer me but if you look at the analysts' consensus on Uniper, in terms of DPS evolution, does these evolutions cover completely your dividend payment, the gap that you have actually? Thank you.

**Pekka Lundmark**

That question we will not be in a position to comment today and, of course, dividend is, of course in our case, our dividend is a matter of multiple things that the Board will look when the time for making the dividend proposal is. But of course the incoming dividend from this investment would contribute to our dividend capacity. But we are not making statements about as to what that total capacity then would be. As I have said in several investor calls, totally unrelated to this situation, when we divested the distribution networks, we divested a business that had a free cash flow after capex of about EUR 150 million or so, which means that we believe that we made financially a very good deal for our shareholders in that divestment.

Now after the acquisitions that we have made before this investment, Ekokem, DUON, restructuring of Hafslund and some of the organic stuff, we – once all this has been completed we almost already have compensated the cash flow that we lost in the distribution divestment and we would have spent only about 20% of the divested capital. This is from cash flow perspective and then you would need to add then the dividend income from Uniper on top of what we already have here. So this is how we're looking the situation, but now this answer was so long that I already forgot your first question if you had one.

### Caesar Colombo

Sorry, no I mean my first question was related to the – let's say if – I mean of course your main objective is the 47% stake but I was wondering if it does make a lot of difference for you if you reach the 51% against the 47% because if there is a big difference in terms of corporate governance, given that potentially if you reach 51% or a higher stake in terms of corporate governance I mean you can control the company and this potentially – let's suppose that you want to de-leverage faster this time your balance sheet, and after the acquisition, with the 51% or an higher stake, it can potentially be easier given that Uniper is not only power generation. Possibly you like all the assets but at the end, I mean it is power generation in different countries, you can sell some assets and there are potentially other players supposed are interested in some of these assets and I don't know about did mid-stream gas asset if it is core for you, for Fortum or not? So I was wondering if, I mean if you dream more for the 47% or if you dream for the 51%?

### Pekka Lundmark

As I said earlier, this is not a take over, this is an investment. We do not envisage that control will be a viable option for the foreseeable future and we have no plans in that respect.

### Caesar Colombo

Okay, thank you.

### Operator

Our next question is a follow up question from Sam Arie from UBS, please go ahead.

### Sam Arie

Yes, thank you. I'm coming back in for two more. Just a quick factual question, following up the last one, actually. Am I right to think that there is a difference between 51% and 70% as control thresholds in Germany and therefore, although I understand you have no intention to get control in the near term, that 70% is also a relevant benchmark if we were thinking about the future?

And then my second question is, and again I am sure you won't comment on your intention but could you just confirm for me if this is a correct understanding? If you reached agreement with E.ON here for the 47%, and no other shareholders participated, you could I assume later on come back with a second offer if you wanted control for the other shareholders at a higher price? But I assume there would be some kind of lock up period in between. So could you just tell us as a sort of point of fact what the restrictions would be in that scenario? Thank you.

### Pekka Lundmark

Well, the legal landscape is well known and in the public domain, so I do not want to get into that because it is all speculation now from this transaction's point of view. We are focussing on E.ON's stake and we are perfectly happy with that stake, so there is – this is the deal that is on the table and there is no other deal in the table or in the plans.

### Sam Arie

Okay, thank you.

### Operator

Our next question is a follow up question from Vincent Gilles from Credit Suisse, please go ahead.

### Vincent Gilles

Yes, thank you. The first question is, the elephant in the room here is the reaction from Uniper's management, because you've been mentioning several times on this call how great the assets are and how you would work with the management of Uniper, but it looks like the management of Uniper doesn't seem very impressed with officially hearing in the press that you have been talking to their main shareholder – I was about to say parent company, it's not the case. So your views here would be interesting regarding the management.

The second question is we are all I think dancing around the issue of potential disposal of the assets, which are most attractive, and Russia obviously comes to mind. Two big companies, you would own together in Russia, do you see synergies there? Do you see anything that would make your proposal more interesting for the Uniper shareholders?

### Pekka Lundmark

As I said, we do see operational co-operation possibilities in several countries where we both have a presence but that would be subject to a dialogue between the two companies and, since we intend to become a shareholder, this is an investment, not a take over, it would not be in our – kind of in our – we would not be in a position to drive or discuss any disposals. This would be something that the management would have to drive.

And that leads me to your question about management – as we said in the press release earlier, we did approach management earlier this summer with the proposal to negotiate a full combination of the two companies. That is not something that they were ready to support and this is something that we respect. But, at the same time, E.ON has said several times, including publicly, that they do intend to sell their stake, so we think it is only natural that when there is a business that is so complementary to ours that we know well and that we believe in, that we would be an interested buyer since they are anyhow going to sell.

We hold Uniper's management in very high regard. They have done a great job in building the company. You can see their result development, it has been encouraging, and despite the fact that there has been speculation in the share because of M&A speculations, I would believe that there are quite many happy investors among the shareholders. There has been a lot of appreciation in the shares. So I think they have done a great job and if we reach this agreement with E.ON we would be very much looking forward to working together with Uniper's management.

### Operator

Our next question comes from the line of Jay Eden from Energy Intelligence, please go ahead, your line is open.

### Jay Eden

Hello, yes, good afternoon. Specifically just looking at gas in Germany, I was wondering what your opinion is on the role of gas? It obviously doesn't play much of a role in the German power mix at the moment. Do you see the EPS strengthening and therefore making those gas assets of Uniper more attractive?

And secondly, it has been difficult in the last couple of years to make money from fossil fuel generation, have you discussed issues with the E.ON management over sort of closures or reserve capacity payments to keep some of the assets open? Thank you.

### Pekka Lundmark

The second question, no we have not discussed that with E.ON's management. Then when it comes to EPS, totally unrelated from anything we have published today. We have been of course for a long time supporting a renewal or strengthening of the EPS system in Europe and that is currently in so-called tri-party negotiation between the Commission, Parliament and Member States, currently under the Estonian presidency, and there is quite promising progress there at the moment. Nothing is certain but there is a real possibility that the system would be tightened that would then have a possibility to drive carbon prices up and that would then also support power price. So we see this as a positive development. We are of the opinion that a good target structure for the power market would be such where emissions would have a high enough price and then subsidies could gradually be phased out and we would be looking at genuinely market-driven de-carbonisation of the system. So this is our view of the market design currently and this potential investment in Uniper would not change this view of it.

### Jay Eden

Okay, thank you.

### Operator

Our next question comes from the line of José López from Millennium, please go ahead, your line is open.



### José López

Hello, good afternoon, thanks for taking my question. My first question is, you mentioned a lot the cash flow of Uniper, but you do realise that most of the dividend comes from the pay out that has been done by Unipro in Russia; so over 50% is coming from Russia. Are you not concerned about embarking on this without the Beryozovskaya three unit issue being sold and also any potential future the direction of the FX and the rouble exchange rate?

And leads into the second question, did you have access to the Uniper books or are you launching this bid without having been able to do any due diligence looking at the actual books, just the public reports, etc.? Thank you.

### Pekka Lundmark

Thank you. We are basing this offer entirely on public disclosure from Uniper. We have not had access to any books of the company other than what would be in the public domain. Of course there is quite a lot of disclosure as a result of the de-merger, so that's why we felt comfortable that we do understand the assets and the situation quite well. Since we have a lot of experience from Russia and the development there has been more on the promising side lately, we feel comfortable that we would be – through this shareholding would be able to accept whatever risk there is in that cash flow. I would claim that through our own portfolio we understand quite well what type of cash flow potential there is in the various assets in Russia, and of course we have noted and taken into account the Beryozovskaya situation, based on what is in the public domain.

### Operator

As a reminder, if you do have a question for the speakers, please press zero one on your telephone keypad. Our next question comes from the line of Dominik Olszewski from Morgan Stanley. Please go ahead, your line is open.

### Dominik Olszewski

Hello, thank you for taking my questions, just two of them. Firstly, have you sought and received any assurances from the Finnish, Swedish or German governments, potentially with regards to carbon policy for example? And then secondly, you are obviously describing this as not being a take over but rather framing it as a financial investment, so is it therefore safe to infer that you would not be seeking a domination agreement down the line? Thank you.

### Pekka Lundmark

Control or domination agreement is not an option that we see for the foreseeable future. We have no plans in that respect. We have not sought for specific assurances from any government. When it comes to the Finnish government we have to remember that we are a listed company and this contemplated transaction is fully within the authorities that our board has to approve. We have discussed with the Finnish government only in the same way as we would have discussed with any other shareholder our general strategy for capital redeployment and we know we have a lot of support from their side to this strategy. But when it comes to this specific transaction, we have not sought any assurances from any government.

### Dominik Olszewski

Okay, thank you.

### Operator

Our next question comes from the line of James Sparrow from BNP Paribas, please go ahead.

### James Sparrow

Yes, good afternoon everyone. Just a quick question on the credit side, just interested to hear your thoughts, whether you've spoken to the rating agencies about this transaction specifically, just the investment in the E.ON piece, and whether you think there could be a rating impact? And indeed whether you have – how far you would sort of be prepared to let the rating slip if you were to sort of take a bigger investment than the 47%? Thank you.

### Pekka Lundmark

I would ask our CFO, Markus Rauramo to take that question.

### Markus Rauramo

Yes, the same goes for the rating agencies as for the investors, so we described in detail what is our intended shareholding and the rating agencies have in their report taken into account that there will be significant capital redeployment happening. So that is already factored into the ratings. When it comes then to financial discipline, we have also stated that our target is to have our leverage around 2.5 times and that, as we have communicated earlier, it may be under that, it may be over that and we have shown in the past that if we are over the leverage targets we are very disciplined and will come back to the targeting levels.

**James Sparrow**

Okay, thanks.

**Operator**

Our next question comes from the line of James Brand from Deutsche Bank, please go ahead.

**James Brand**

Good afternoon, two questions. The first is just you've obviously had a lot of questions on why you're playing down, or kind of not directly going for control and I just wanted to check from the answers that I've heard that it sounds like the key reason that you're saying really is the fact that management aren't willing to agree to the deal and so I just want to clarify that is the key reason why you're not going for control and it's not something else that hasn't been talked about yet?

And the second question is obviously there's quite a long period potentially between when this offer is going to be agreed and when the deal was complete, at a time when power prices are very volatile and there is lots of kind of interest in consolidation in the sector. So the question is, is there going to be anything in place to stop E.ON looking at other options for its stake, such as a break clause? Thanks.

**Pekka Lundmark**

If and hopefully when we reach an agreement with E.ON, then of course we would publish details of such agreement, but at this stage it's not possible to comment anything more than what we say in the release. The first one is about control, look, we approached Uniper's management earlier this year, as I said, and they had no interest to discuss accommodation of the businesses and this is something that we do respect. But instead of that being E.ON's stake, it is on the market and that is why we are focussing on that. That is the only deal that is available on the market today, so that is an answer to why we are not focussing on that. Control is not available – we are not focussing – we are not seeing that in the foreseeable future. We are perfectly happy to get the E.ON stake and we are going to be a constructive shareholder and we look forward to working together with management.

**James Brand**

Thanks.

**Operator**

Our next question comes from the line of Artem Bletski from SEB, please go ahead.

**Artem Bletski**

Yes, hi, this is Artem from SEB. Actually still two questions from my side. When it comes to the co-operation opportunities you mentioned, could you maybe provide some colour in what areas you see those ones? Also basically are we talking about how you will be running assets? Are we talking about joint investments so, for example, R&D opportunities on that front? And the other one is really relating to the regulatory aspect and whether you are seeing some obstacles eventually there? And I guess that Sweden is sort of an area where you are having the biggest overlap in terms of assets right now.

**Pekka Lundmark**

The first question I unfortunately have to repeat my earlier answer that we will, we do not want to get into this now, since that would require discussions with Uniper's management and we have not had those discussions. So we come back to this one if and hopefully when we would have those discussions and then perhaps we could shed more light on this one.

This transaction would need regulatory approval in the EU, in Russia and in the United States and, of course, it is not good practice to try to pre-empt what the authorities would decide or rule but, of course, we have done our homework, together with advisors and the fact that we are negotiating a deal like this, of course, is a certain sign of confidence of the achievability of the clearances. But this is something that we do not want to pre-empt. We will work together with the authorities and present the case to them and then we will wait for their decision and that's why the potential deal is published, and equally the tender offer will be subject to regulatory approvals.

**Artem Bletski**

Okay, very clear. Thank you.

**Operator**

Our next question comes from the line of Jakob Magnussen[?] from [inaudible], please go ahead.

**Jakob Magnussen**

Yes, thank you. First of all have you secured funding if you should be in a position where you get almost all of the shares in Uniper? I saw from your future statement that you have committed facilities of EUR 1.9 billion, so you still have some extra committed facilities needed if you were to buy the full EUR 8.75 billion.

And then the second question, I am not sure, why are you excluding gaining some cost synergies, for example, in Russia? I know you labelled this as an investment not a take over, but surely with many of these big transactions we know much of the rationale is to harvest cost synergies, are you maybe cutting double functions and why are you not prepared to talk about this?

**Pekka Lundmark**

Again this is an investment not a take over. What you just said would require co-operation and discussions between two companies that would have potentially value creating co-operation opportunities and basically we see such opportunities in those countries where we have complementary businesses, and of course Russia is one of them. But once again this would require discussions with the management of Uniper.

Then the funding question I would ask Markus to take.

**Markus Rauramo**

Yeah, so you know that our financial position is very solid and strong. We have a strong balance sheet and very good liquidity and we are very comfortable that we will have financing secured for the transaction and for the different scenarios contemplated. So yes, we are confident.

**Jakob Magnussen**

Okay, thank you.

**Operator**

Our next question comes from the line of Petter Nystrom from ABG Sundal Collier, please go ahead.

**Petter Nystrom**

Yes, thank you for taking my question. One question from me. You say that you are focussing on E.ON's 47% stake and that that is the only deal on the table here, but is that really the case as you are also giving an offer for the remaining 53% shares, assuming a successful negotiation with E.ON? Thank you.

**Pekka Lundmark**

Well, this is the only deal that is on the table but part of that deal is of course the fact that if we reach an agreement with E.ON for their stake, we are in a way directly coming from the law. We are obliged to publish a tender offer and present it to shareholders. That is not what we are primarily looking at, we are focussing on E.ON's stake, but of course if there are other shareholders that will be happy to lock in the value appreciation that there has been in the share recently we would be happy to do that as well.

**Petter Nystrom**

Thank you.

**Operator**

Our next question comes from the line of John Musk from RBC, please go ahead.

**John Musk**

Yes, good afternoon everyone. Just one question left for me. We all know that obviously you can't finalise this transaction with E.ON until early 2018 for tax reasons, and then you've talked around regulatory approvals, etc., can I just check were this to take maybe another five or six months to complete we obviously come up to dividend payments from Uniper, would the EUR 22 per share be adjusted down were we to get to the stage where Uniper had already declared the roughly EUR 0.70 that it has indicated to the market for 2017?

**Pekka Lundmark**

Yes, the end of the year, the EUR 22 includes the expected dividend, so you can look at it as EUR 22 full value, or – well you mentioned EUR 0.70, if that would be the value that it would be EUR 21.30 plus EUR 0.70.

**John Musk**

Okay, thank you.

**Operator**

Our next question is a follow up question from James Brand from Deutsche Bank, please go ahead.

**James Brand**

Oh hi, yeah, I just want to ask, given that you are talking about having – not having control and for that lasting for a foreseeable amount of time, I just wanted to ask Markus how we should think about the leverage target in the context of a large equity investment and whether or not we should be – obviously at the moment it is a net debt to EBITDA target, but if you did have a significant equity investment obviously that would have debt carrying capacity as well, how we should think about that? Or how you were thinking about that? Whether you would proportionally consolidate the debts or give some debt carrying capacity to the equity investment or any thoughts on how you would think about that would be of interest?

**Markus Rauramo**

Yes, of course the rating agencies, they do their own adjustments to the ratios but we work on it with the reported numbers. We have our target of 2.5 and, like we have said before, if the rate is below that then there is room to manoeuvre with transactions with organic growth towards that. If we are over then we work in a disciplined way to bring that leverage down. The 2.5 is the target and it is also over the longer term, so we are not fixed on that that has to be there exactly on one year, so we have also room to move around that. But all in all to have a disciplined financial policy that enables us to implement that strategy both for Phase One and Phase Two moves.

**James Brand**

Okay, thank you.

**Operator**

Our next question comes from Nicolai Solakov[?] from ING Bank, please go ahead.

**Nicolai Solakov[?]**

Hello. It seems your initial preference when you approached Uniper was for full combination of the two businesses. My question is what objectives did you have to forego in this current second burst with the transaction?

**Pekka Lundmark**

Sorry, can you repeat your question, I did not quite understand?

### Nicolai Solakov

It seems that you approached Uniper with an offer for full combination of the two businesses and the question is regarding the objectives that will now be outstanding as opposed to achieved in the current implementation of the way forward of this equity investment?

### Pekka Lundmark

Okay, all right, all right, thank you, now I understand. This is obviously a very different deal. We had an interest to discuss with Uniper a full combination of businesses because we thought that would make sense, but once again, they had not an interest to discuss that, which we respect. But we really think that this is such a good company, precisely working in an area that we know, and their operations we have precisely seen the criteria that we have set for our investment, so that led to a conclusion from our side that since E.ON is selling their stake, as they have publically announced, that we would make this investment. And we are confident that also already as a stand alone investment this will be a good investment, since this is the only deal that is available.

### Nicolai Solakov

Thank you.

### Operator

As a final reminder, if you do have a question for the speakers, please press zero one on your telephone keypad now. We still have a follow up question from José López from Millennium, please go ahead, your line is open.

### José López

Hello, thanks for the follow up. My other question was, you seem to be very positive about the sector high carbon price could have, but we have already seen what a high carbon price does, because we have it one here in the United Kingdom, it has basically thrown coal off the grid. Then you have the whole full capacity market and ancillary services, but what we are seeing is that actually the demand side response and batteries are competing heavily for that market too. So how – how do you see thermal at the heart of the energy transition when actually the energy transition is more likely to be about renewables, batteries, demand side response, technology, you know, I would appreciate your thoughts on that? Thanks.

### Pekka Lundmark

Yes, yeah, I mean energy transition will be about simultaneously about de-carbonisation, maximising the share of renewables, which automatically leads to increased need for flexibility. And one way to do flexibility is on the production side, for example, gas turbines are extremely flexible thing. It's flexibility also in hydropower plants, which is something that we have, which Uniper also has, and there will be increasing elements of the flexibility market coming from that area. We believe that all these elements are needed and our clear preference is actually pretty much along the lines that are defined in EU Commission's energy package about the market mechanisms. Where the goal would be a market where primary driver would be energy, perhaps complemented with security of supply type of arrangements. For example, strategic reserves and the whole thing would be driven by a de-carbonisation, where a stronger carbon price than today would be a key driver.

And, of course, we have in our scenarios, and we have pretty detailed power price models for the different European countries, we have taken the different scenarios into account and we believe that when you look at Fortum's portfolio and then Uniper's portfolio, including our investment in that, this portfolio would actually be quite resilient in different types of scenarios, depending on what happens on the carbon market. What happens or does not happen when it comes to capacity markets or capacity subsidies. So I think this will be a pretty good portfolio, but our clear preference is, and continues to be, market mechanisms that would support higher carbon prices than today and this is clearly the preference of the European Commission as well.

The UK has been operating with a carbon floor. The issue with carbon floors is that if they were to be implemented wider in Europe they would have to be fairly regional, preferably Europe-wide, to be able to – not to cause secondary effects that would dilute EPS in other markets. But once again we are able to live in all different scenarios going forward.

### José López

Thank you.

## Operator

Our next question comes from the line of Luis Amusategui from Cygnus, please go ahead.

## Luis Amusategui

Hi, good afternoon everyone. You keep on saying that you are at the moment focussing on the E.ON stakeholder deal but it seems that you will be making an offer for the whole of the company. At what point of acceptance does this deal go from a financial stake to a controlling stake? Do you need to pass – I would imagine if you get 100% then it would be a controlling stake. How about if you get 71% or 51%, is there any – is there any colour you can give us on that point?

## Pekka Lundmark

Once again we are going after the E.ON stake, we do not envisage that control will be a buyable option for the foreseeable future, that's why we have no plans in that respect. The reason why we are making a tender offer is that it comes automatically as a result, as a direct consequence and obligation from doing a deal with E.ON.

## Luis Amusategui

Yeah, but how about if – I don't know, 25% of other shareholders decided to sell you their shares? You don't expect that is a possibility at all?

## Pekka Lundmark

I mean that would be up to shareholders to decide. I mean we believe that this is a good offer. The fact that the largest shareholder is willing to sell at this price I think is a good testimony for our theory that this is a good way for shareholders to lock in value, and, of course, as we are publishing a tender offer to all shareholders, we would be happy to buy all the shares that the shareholders would be selling. But once again that is not the primary objective of this deal. The primary objective is E.ON's stake.

## Luis Amusategui

I realise, but since you don't control how many people are going to take the offer, what happens if 71% will take that offer? Have you not contemplated that possibility at all?

## Pekka Lundmark

We – well we are publishing an offer to all shareholders. We think it's a good value. We would be happy to take that.

## Luis Amusategui

Okay, all right.

## Operator

Our next question comes from the line of Antti Koskivuori from Danske Bank, please go ahead.

## Antti Koskivuori

Yes, thank you. I would have one question related to Uniper's quite large coal – exports of coal and the ESG aspect of the issue. Do you know, or have you studied that if there are any restrictions at your current shareholder base to be invested into the company, where you would have a, say, a 47% stake of Uniper?

## Pekka Lundmark

No, we don't believe so. We believe that the key thing to many of our shareholders, including the state, is that we need to have a strong agenda for de-carbonisation and we believe that this platform, these two companies, and their respective assets will be a great platform to drive the European de-carbonisation, and for that we believe that we would have full support from our shareholders, including the Finnish government.

## Antti Koskivuori

All right, thank you.

**Måns Holmberg**

Operator, we would have time for one more question still.

**Operator**

There are actually no further questions registered, so I will return the conference back to the speakers for any closing comments.

**Måns Holmberg**

Okay, thank you very much, Pekka, Markus, thank you all participants for the active participation and if there are any further questions you can feel free to contact us at the IRT email. Thank you for today and have a nice evening.

**Operator**

This now concludes the conference call. Thank you all very much for attending. Participants you may now disconnect your lines.