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<b>Speakers:</b>	Pekka Lundmark President and CEO  Markus Rauramo CFO
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## PRESENTATION

### Ingela Ulfves

Joint webcasted news conference on our third quarter results here today. Please note that this event is being recorded and a replay will be available on our website later today. My name is Ingela Ulfves and with me here today are also Måns and Rauno from our IR team. Our CEO, Pekka Lundmark, and CFO, Markus Rauramo will present our third quarter results, after which we will open up for questions and answers. As a reminder, you are also able to ask questions on our webcast chat. With this, please welcome Pekka.

### Pekka Lundmark

Thank you very much, Ingela, and good morning. Good morning everybody watching this over the web and also here in Espoo. We are pleased to announce these results today. They are, for the most part, in this quarter, good results. I'm happy to report a quarter where we actually increased our comparable operating profit by 59%. This, we were able to do despite the fact that the Nordic spot prices were down quite a lot, actually 31%, but because of a successful hedging, we were able to achieve a power price of €35.70, which was actually slight up year-over-year. Hydrology, of course, is an extremely important thing that always affects our results and I will show you the graph in a second, but it is now more or less on a normal level compared to very dry hydrology a year ago. Very good development, both in comparable EBITDA and comparable operating profit, EBITDA plus 28%. Overriding profit, as I already mentioned, up 59%, and actually, this is even

stronger when you take into account the fact that in last year's Q3, we had a €26 million sales gain from divestment of part of our Indian solar portfolio. So, if that would be taken away from previous years' numbers, this improvement would be even bigger.

Our share of profits from associates and joint ventures was €106 million in the quarter and €86 million out of this relates to Uniper. That €86 million includes €8 million of their value chains and the rest is our share of Uniper's result. EPS at €0.20, items affecting comparability €0.02, and Uniper contribution €0.10, so if those two would be excluded, then it would mean that in a way, the Fortum EPS without Uniper and without items affecting comparability would have been €0.12. Our comparable net debt-to-EBITDA currently stands at 3.2. Of course, the big thing is the Uniper situation that I will comment on in a second, but in addition to that, a lot of other things are also happening and I would like to here highlight one strategically important thing which is our decision to exit coal here in our hometown, in Espoo, a few years earlier than originally planned. Our target is now that we would do a final exit of coal by 2025 and this then supports, obviously, the carbon neutrality target that the city of Espoo has. Then I thought I would repeat the main points about the transaction regarding Uniper. There is no new information that we would be releasing today. This is more or less the same that we published two weeks ago.

Just to recap, we have signed an agreement that we will acquire Elliott's and Knight Vinke's share in Uniper. That's at least 20.5%. There are some instruments that are still a little bit unclear as to how much exactly we will get but we will get, as I said, at least 20.5%, which means that we will have at least 70.5% ownership. This takes our total investment to €6.2 billion and it means that the average price that we will have paid for these shares will be €23.97. We also said that we rule out a domination agreement for a period of at least two years and the same applies also to any potential squeeze-out or delisting of Uniper from a stock exchange. We did say that we intend to be represented on the supervisory board in such a way that it would correspond to our ownership and that also includes the chairmanship position in the company. Then very importantly, we have offered commitments to Uniper's employees and we are now in dialogue not only with the company but also with the employee representatives, and we, of course, hope that we would be able to find a good solution that would also take care of the employee concerns, which I understand very well. There has been a lot of talk and speculation about the situation, which, of course, has caused uncertainty among employees, which is something that we all need to take very seriously. I'm convinced that this step will return stability and good focus back solely on business and the opportunities available to us. This definitely, I believe, will be a good thing for the employees of both companies.

I would like to emphasise that this transaction is still subject to approval from regulatory authorities, both in Russia and the United States. We are in discussion with the Russian Federal Antimonopoly service. I do not want to pre-empt their decision, but of course, we would not have signed and published this transaction unless we would be quite confident that there would be a way or ways to deal with the hurdle that we have had there. Having said all this, we now need to give them the peace to work on a solution and then publish their decision in due time. We expect that we would be able to close this transaction by the end of the first quarter next year. Once the transaction closes, we will consolidate Uniper as a subsidiary in our financial statements then, after the closing has taken place. We have, of course, full financing available for this transaction, both from existing cash resources and committed credit facilities underwritten by Barclays Bank. Very importantly, we are committed to maintaining an investment grade rating post this transaction, and not only that, but then to also strengthen the financial profile of the group longer-term, and this will provide appropriate financial stability and support for the whole group. This also applies to Uniper's credit rating, which is, of course, an extremely important thing. We are not only looking at our own credit rating, but we are also looking at Uniper's credit rating.

Now, in this short presentation, I will not repeat the entire strategic rationale. I just say briefly that we want to do is to create a leader in the European energy transition. In that transition, both decarbonisation and security of supply are important things. In addition to this, the third

part of the so-called 'energy trilemma' is the importance of making sure that affordable energy is available to consumers and businesses across Europe. Fortum and Uniper really have the strategic mix of businesses and assets required to successfully drive this transition from conventional to cleaner and, at the same time, more secure system. Fortum has, of course, a strong portfolio in low-emission assets. Uniper has an attractive portfolio in hydro, nuclear and gas assets and a platform for growth in many key areas. We believe that these two companies complement each other exceptionally well in the energy transition. Then, if I move on to the next topic, which is water reservoirs and hydrology, which is always extremely important when it comes to the power price development in the Nordic region especially, as you remember last year, the third quarter was extremely dry and you can see here, on this chart, it's the dark green colour was the development of the reservoirs during 2018 and then the orange dotted line is this year's development.

We started this quarter with five terawatt-hours above average water reservoirs. Then the weather conditions were dry in July and in the beginning of August. That resulted in a bit lower than normal in-flows and as a consequence, water reservoirs then normalised during Q3. At the end of Q3, the reservoirs were 0.5 terawatt-hours below average. Actually, nine terawatt-hours higher than a year ago. If we then take the very latest development, the beginning of October has been more on the dry and cold side, and the current, very latest situation, is that we're about two terawatt-hours below average in Nordic water reservoirs. Then commodities, first of all, coal and gas, obviously, are competing fuels in power generation. We have seen a lot of coal to gas switching during this year, which has clearly reduced emissions in European power production, which is a very good and encouraging thing. Of course, because these two fuels are competing, it means that their price development is also more or less correlated. Coal has been more affected by the weakening macroeconomic environment, particularly Chinese weakness because, roughly speaking, half of the global coal demand is in China. Gas prices have been more driven by the very strong supply growth in LNG and when that has been combined with the flat demand in East Asia, that has created a situation where Europe has acted as the market balancer. One consequence of this is that the storages are now extremely high. They're filled 98%. Indeed, this has also been then suppressing the gas front price, as you can see that on this chart. Actually, the gas spot price during the quarter was really weak compared to, for example, the situation a year ago. It was €10.20 per megawatt-hour in Q3 this year, whereas it was €24.60 a year ago, so that's a 58% drop. Then the concerns about disruptions regarding, for example, the Ukraine/Russia gas transit agreement at the end of the year has kept the Winter prices on a higher level than what the spot prices have been.

Then moving on to CO<sub>2</sub>, CO<sub>2</sub> price peaked in July at approximately €30 per share and this is, of course, very strong development, as you can see on this chart. It was just a year or two ago we were at €5 per tonne. Now, we peaked at €30. Then after that, there was some decline, probably related to worries on a hard Brexit. In general, the CO<sub>2</sub> price has held up pretty well despite the downward trend in both coal and gas, and there probably the reason is the start of the market stability we saw in the beginning of this year. Then during the very last few days, again, as you can see on this chart also, the likelihood of a hard Brexit has substantially decreased and maybe that has a connection then to the very latest development of the CO<sub>2</sub> price.

Of course, then, the fuel prices in connection with the hydrology and CO<sub>2</sub> price, they also then affect the Nordic price development. First of all, quickly improving hydrology is most likely the reason for the Nordic spot price decline during 2019. This is quite a strong decline compared to the third quarter. Last year, the average price was €34.70, whereas it was €50.50 a year ago. It was slightly higher in Finland because the water situation in Finland was more scarce than in the other parts of the Nordics and that led to a situation where the Finnish price has been more than coupled with the Baltic price areas. Then, of course, the decline in gas price created softness in German spot prices which also had an impact on the Nordic spot market. The forward market, however, is expecting a rather quick recovery from the current spot prices due to, again, as I mentioned, seasonally then higher gas prices for the Winter. That will support continental power prices and then, indirectly, also Nordic prices. Despite the weakness in the spot prices, as I said, the forward prices have held up quite well. Here, in the bottom right

hand corner, you see the 2020 forward price development for both the Nordic and German products and, as can be seen here, they have been moving sideways, actually, throughout this year.

Actually, the spread between these two prices has increased a little bit from the beginning of the year. We were at €11-12 earlier this year and now the latest spread is around €13. Again, we don't give any detailed analysis or estimates on how this will continue, but again, Nordic hydrology is always a strong component in this spread. One detail that I would like to add is that we've been talking a lot about increasing interconnections between the Nordic system and the European systems. The biggest change there is the so-called COBRA cable between Denmark and the Netherlands was opened in September. That adds 700 megawatts of interconnection capacity. So, today, we are at 6.7 gigawatts of interconnections and this capacity is expected to increase to approximately thirteen gigawatts by the end of 2023. Of course, this is a very complicated equation, but everything else equal, of course, this substantial increase in interconnections should have an effect that it would lower the spread between these two markets, but I want to emphasise, everything else equal.

I already commented the spot price development in the Nordics. Our achieved price, then, was actually quite close to the spot price. It was slightly above €37.70 and that was 3% higher than a year ago, despite the fact that the spot price was 31% higher, so we had 3% higher achieved price on 31% lower spot price. There are some price developments that have also been relatively encouraging. We have a 5% increase in the rouble-denominated spot price due to tightened supply and demand balance, and the achieved power price, which then also takes into account capacity payments and the translational effect, is actually quite much higher, 11% higher, than a year ago.

Then I will move on to quick comments on each division. I start from generation. Really good quarter but, of course, we have to remember that the comparison period a year ago was exceptionally weak in hydrology. Now, this time, we had 4.3 terawatt-hours of production. Last year, we had 2.9, so this was a 50% increase in hydro production compared to last year. The combined effect of, then, production volumes and price, actually, meant that we doubled our comparable operating profit compared to last year. Nuclear generation volumes were also on a good level. They were slightly higher than last year, five terawatt-hours compared to 4.7. In terms of achieved price, our last twelve-month achieved price is now at €36.60, whereas full year 2018 was €34.60. I would also like to pay your attention to our return on net assets comparable RONA, which is now on a pretty good level of 13% for this business.

As I also commented in the report text, city solutions did have a weaker quarter. This was €40 million weaker than a year ago, but again, here we need to split this into different elements. €26 million of this comes from last year's Indian solar divestment one-time gain. So, €14 million is the remaining difference. Of course, this is something we cannot be happy with, even though the second and third quarters are always seasonally quite weak in the city solutions business. There were several challenging external factors such as fuel prices, CO<sub>2</sub> prices, taxes, that affected the result, but they were also internal operational matters that we, of course, target to address as efficiently and as quickly as possible. So, this is not a satisfactory result, despite the external challenges that we were facing in the quarter.

Consumer solutions, excellent quarter, actually. Of course, these numbers are much lower than in the generation segment, but in relative terms, this improvement was even stronger than in the generation business. 129% improvement in comparable operating profit in the quarter. This is driven by higher sales margins and improved performance, not only in the Nordic region but also in Poland. These higher sales margins are a result of the systematic and active development of the product and service portfolios following the Hafslund integration and

subsequent development of the business. Overall, encouraging development actually now for the third quarter in a row for the consumer solutions business.

Then finally, the Russia business also developing well. We have a 33% improvement in comparable operating profit. This is supported first of all by Forex exchange rate, about €5 million out of the €13 million improvement, and the remaining €8 million is then split between result improvement, both in the heat business in Russia and, as I already mentioned, higher electricity margins. Again, here I would like to highlight the comparable return on net assets percentage, which is on a pretty good level, 12.4%. So, ladies and gentlemen, these were quick comments on the overall situation and the division of performance, and now I would like Markus to continue from here before we take your questions. Thank you.

## Markus Rauramo

Thank you, Pekka. So, let's move forward. To summarise, Q2 result increased by 59%, as you heard, from €96 million to €153 million. This was driven by big improvement in generation on the back of higher hydro and nuclear volumes and higher achieved prices. Consumer solutions benefited from higher sales margins and improved performance in Poland. Russia improved on the back of improvements in the heat business, higher power margins and €5 million of positive foreign exchange impact. Finally, city solutions decreased by €40 million, which is not what we would like to see. €26 million out of this was relating to the profit from the previous year from the sale of the Indian solar business. Then we had the longer maintenance breaks in our combined heat and power, weaker performance in recycling and waste solutions and higher fuel and CO<sub>2</sub> prices. On a cumulative basis, the results include €139 million from €654 million to €793 million. Generation improved cumulatively on the back of better prices and volumes, consumer solutions on higher sales margins and the active development of the product and service offering we have, which I'm very, very happy about.

Russia improved altogether €40 million, with higher electricity margins, lower bad debt provisions, higher CSA payments. City solutions was down €30 million. €26 million out of this relates to the solar sale the previous year and then, unfortunately, the Q3 weaker operational performance offset the better performance in the first half. Segment 'other' came down €11 million with the increased spend on business technology, including our ventures activities. Then to the main points on key financials. Very happy to say that sales comparable EBITDA and comparable operating profit improved in all of the comparison periods, in Q3, year to date, and the last twelve months versus 2018. If we go down the lines, the main focus would be on the cumulative numbers and there you can see that the share of profit from associates in the year to date numbers increased significantly. This is mostly coming from the €534 million contribution from our share of Uniper's results. Going further down, the EPS of €1.27 includes elements and items affecting comparability and, altogether, €0.60 of Uniper result impact. What is especially strong is the net cash from operating activities year to date, €1.75 billion, and also, in the last twelve months, net cash from operating activities totalled €1.79 billion, and I'll come to the details in the coming slides.

I'll only list a few points in the income statement. The sales and comparable operating profit improvement, I've commented on already, increased in all periods. Items affecting comparability, when you go down below the comparable operating profit, cumulatively negative €127 million, including fair value changes and nuclear fund adjustments. In comparison, last year cumulatively in 2018, the same line item was €175 million positive, including the sales gain from Hafslund production and then fair value positive adjustments. Year to date 2019 profit stands at €1.14 billion, and the last twelve months at €1.34 billion.

Then the main issues on the cash flow statement. Also, here, I would focus on the cumulative numbers from Q1 to Q3 this year. EBITDA increased significantly to €1.2 billion. Paid financials, taxes and others remained quite stable, and then we had a clear increase in dividends received from associates, €239 million in the period. The biggest contributor being Uniper. Working capital change was a positive item of €201 million, and then we had positive impact from the settlements of futures on the back of lower prices in the market of €342 million, and

this, altogether, comes up to net cash from operating activities of the previously mentioned €1.75 billion. Further on, if you go down, you will see that the change in cash collaterals, where the main contributor was the collateral arrangement we did earlier in the year, contributed altogether €320 million, and after Capex, after the other items, cash flow before financing stood at a strong €1.59 billion. The only other thing I would highlight in this table is from last year. The big, big item there was the acquisition of Uniper shares, impacting both the cumulative Q1, Q3, and the full year, 2018.

When it comes, then, to balance sheet ratios, the development is positive. EBITDA up to €1.68 billion and debt slightly down to €5.36 billion, and this gives us a net debt/EBITDA ratio of 3.2 times, down from the 3.3 earlier, and 3.6 where it stood at year end. ROCE is at 9.0 and, of course, that includes big fair valuation items and Uniper results, but nonetheless, 9.0. Our liquidity is very strong. We have €1.4 billion in cash and undrawn committed credit facilities of 1.8 billion, and we also have, for the Uniper transaction, the €3.3 billion underwriting for the transaction. We are in discussion with the rating agencies. Investment grade rating is our key priority, and altogether, the rating agencies are expecting to resolve the credit watch issue when the transaction closes and they receive clarity on the potential remedy measures, and we will come back to that at the time of the closing. The rating agency reactions are exactly what we had been expecting, and our commitment to the deal leveraging is strong.

Finally, to the outlook, we continue to expect demand growth to be 0.5% on average. With regards to the hedges, for the remainder of the year the hedge level continues to be the same, 80%, and at €33. For next year, the hedge ratio increased from 60% to 70%, and the hedged price from €31 to €33, and now we communicate, for the first time, the 2021 hedge ratios and prices, and they stand at 35% at €33. Estimated Capex for this year remains the same, €600-650 million, and the targeted cost synergies from the Hafslund transaction are at the same level, €15-20 million, gradually materialising during this and next year. Finally, the effect in tax rate for this year is expected to be between 19% and 21%, likely in the higher end of that.

So, with this, I think it is time to go for Q&A.

## Ingela Ulfves

Thank you, Pekka, and thank you, Markus. We now open up the Q&A session, and we would start with questions here among the audience in Espoo, and then after that, we'll continue with the teleconference participants. If you have a question, please raise your hand and we will give you a microphone, and then please state your name before the question.

No questions, it seems, in the audience, so, operator, we are then ready for the teleconference questions.

## Q&A

### Operator

Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. Please hold until we have the first question. We have a question from Wanda Serwinowska from Credit Suisse. Please go ahead.

### Wanda Serwinowska

Good morning. Wanda Serwinowska from Credit Suisse. Two questions from me. The first one is on your net debt at the end of 2019, if you could give us any guidance whether you see on that debt (inaudible) at the end of the year? My second question is on the co-operation with the Russian sovereign wealth fund. If you could give us some numbers, because from what I saw on Reuters, the Russian sovereign fund is going to invest hundreds of millions of dollars. How much do you want to invest? Where do you want to invest, and would it be any impact on your JV with Rusnano, and is there any timeline there? Thank you very much.

### Markus Rauramo

Okay. I can take the first one on the net debt. So, as you know, we don't give guidance on the net debt, but you have seen that we have been focusing on the deleveraging. We are very conscious of prioritising heavily our Capex and Opex, with the key target to have an investment trade rating, which is very important for us. So, we'll continue on that same track, and this is one of our internal big priorities that we will also be talking about this afternoon with our employees.

### Pekka Lundmark

Then, your second question, I presume that you are referring to the non-binding letter of intent that we published with RDIF on Monday, and, unfortunately, I'm not able to give you any numbers because this is really a letter of intent and non-binding. It is a general declaration of willingness to cooperate in investment projects, their willingness to invest in certain projects that could be driven by us. Of course, renewables in general is one potential area. There could be other areas also, but there are no decisions. No binding commitments. So, unfortunately, I will not be able to get into more details than this.

## **Wanda Serwinowska**

If I could quickly follow up on the RDIF? So, is there any timeline for when you will announce something, because it sounds as a big investment.

## **Pekka Lundmark**

No, this is not an arrangement that would have any specific timeline.

## **Wanda Serwinowska**

Will it be 50/50, or it hasn't been decided?

## **Pekka Lundmark**

No. Nothing like that has been decided. It's a general declaration of intent to discuss and look for potential joint investment opportunities, but not more than that.

## **Wanda Serwinowska**

Thank you very much.

## **Operator**

Okay. Our next question is from Vincent Ayrat from J.P. Morgan. Please go ahead.

## **Vincent Ayrat**

Hi. Good morning. I thought I would have just a few questions here. One, to come back to city solution, you talk about the higher fuel costs, and the CO<sub>2</sub> costs there, one of the reasons for the pressures you've seen there, and taking corrective measures. So, I'd like to get a bit more colour on all of this. One sub-question would be, there, actually, normally, this should end up being passed through higher fuel costs and CO<sub>2</sub> costs. So, how should we look at that? Should we assume some sort of normalisation of the coming few quarters, or at least the



coming year? So, that would be question one on the city solution. Another one would be regarding the process for the Russian authorisation. We've seen some comments made, actually, by Russia that this should be solved within the next six months, but what exactly is the process? What should we be looking at? When? That would be very, very useful to get some colour on that. Finally, regarding the long-term power hedging, you present a number of €33 there. Clearly, we, in a consensus, are up to €28. There are some regional premiums to be had, and physical optimisation at the end of the day, but does this €33 seem like pretty much in line, or in trajectory with your current expectation of the market? Just to get some colour there. Thank you very much.

## **Pekka Lundmark**

Thank you. I'll take the first two questions. City solutions, once again, was on comparable terms €14 million behind last year's result, and this was a result of several things, none of which were alone dominant in this difference, or miss, if you would say. CO<sub>2</sub> is one of the components, but it alone is not that dramatic. Of course, for our generation business, high CO<sub>2</sub> price is positive for the city solutions. It, in most cases, means a higher cost, but, of course, the positives of high CO<sub>2</sub> price in generation business by a big margin outweighs the negatives that it has in the city solutions business. So, it's not that big a part. There were other things. There were taxes. There were fuel costs. There were internal operational things, such as some prolonged outages and also, in the recycling and waste business, some cost overruns in certain projects. Again, none of these single components would be, alone, dominant in this €14 million miss, which we, of course, are now addressing. Then, as I said, we are hopeful about the Russian approval. I'm not able to give you a detailed timeline. Our goal is that we would be able to close by the end of the first quarter, but again, we now need to let the authorities do their work.

## **Markus Rauramo**

Okay, and when it comes to the hedging, whilst historically, we started building step by step the hedging portfolio for the coming years, we don't take any special views, vis-à-vis the market, or the prices, or have a strong opinion about that. The main target with the hedging is to bring stability to the cash flows, and predictability, which, especially now, when we have higher leverage, is important for us. Then, technically, in the hedging process, what our organisation is seeking is the optimal risk and return position, and then they have certain flexibility around that target, taking into account the company's total situation.

## **Vincent Ayrat**

Thank you. Just two to follow up there on the Russian authorisation, I was not asking for a timeline, obviously. It's outside your control, and you do not want to comment on that. It was just to know if there are, like, any specific steps in the process that we should be expecting. Not to talk on behalf of the Russian authorities, just normal process. Regarding the hedging, I understand that. Now, there are some (? 41.48) premiums are captured, physical optimisation at a later stage. Just wanted to know, basically, what type of level do you see on these? So, when we look at the €33, at the moment, and what you have achieved through 2019, basically, what type of premium we should add to the €33 to get an idea of your trajectory regarding achieved power price for 2021. Thank you.

## **Pekka Lundmark**

On the Russia process, there is nothing really special there. We have done a preliminary filing to the Federal Antimonopoly Service, and we are now discussing the next steps with the authorities, but again, this is in their hands now, including the details of the content of the process and then, of course, the final timeline. That's why this end of first quarter next year, it is not a commitment that we would be able to give on behalf of the authorities. That is our own internal goal and estimate.

## **Markus Rauramo**

With regards to hedging, thank you. It's a very good question, and something I'm very happy about, which is the good availability we have had on our hydrofleet, and that, in the coming years, if we assume that there will be even more volatility, this will become growingly important and valuable that we can capture the volatility through the physical optimisation. So, overall, I would say that it is the physical optimisation that brings us the most added value on top of the market prices, and then financial optimisation plays a smaller part, but the exact numbers, as you know, we don't disclose.

## **Vincent Ayrat**

Thank you.

## **Operator**

Our next question is from Elchin Mammadov from Bloomberg Intelligence. Please go ahead.

## **Elchin Mammadov**

Hi there. I have two questions. One is on Russia. Uniper has been very strong winning the new modernisation capacity tenders in there, but Fortum hasn't. I mean, you did warn us in the past that your fleet is relatively new, and you don't expect any major wins there, but could you just talk a bit more about whether you expect actually to win anything new, given that this modernisation auction will be very important once your CSA payments roll off. The second question is on the renewables. There's been a story yesterday, I think, about Sweden and Norway planning to phase out onshore wind subsidies by 2021 because these renewables are reaching grid parity. What does it mean for your business? If I can squeeze on the final question, it is about assisted solutions. I mean, the results haven't been great, but they haven't been great for a while. Have you considered selling it? It's not a huge part of your earnings, so maybe you can focus on your generation business instead. Thank you.

## **Pekka Lundmark**

Okay, thank you. First, the modernisation opportunities in Russia. As we have said earlier, the fact that we did not participate in these tenders was a deliberate decision, and the reason is quite simple. Our fleet is very modern, and we did not really see there being a match between

what was offered and what we had in our fleet. Uniper's situation was different. They decided to participate, and they also won some of those tenders. Again, we understand it very well from their point of view, and we, obviously, as an owner, support them in this part of their strategy execution. The renewables market in the Nordics, it's clearly becoming an emergent market without subsidies. Wind is, today, already, in good locations, the most cost-efficient way of producing electricity, and we think it's a good development for the market that the subsidies are phased out. This is a positive thing for the overall market because it means that the different technologies can compete on market terms without having to worry about how the subsidy policies would develop. Then, city solutions, it continues to be in the core of our strategy. We are in strategic review of some assets there, as we have published earlier some small assets in Finland and then our assets in Estonia, but I would like to emphasise that this is a strategic review. There is no decision to do anything, including any divestments. We are looking at multiple options for these particular assets.

## **Elchin Mammadov**

Thank you.

## **Operator**

Our next question is from Sam Arie from UBS. Please go ahead.

## **Sam Arie**

Hi. Good morning, and thank you, as always, for the presentation. I think we've covered a lot of the questions on results, so I wanted to ask two wider questions. The first is on carbon, and you talked about recent softness in the EU carbon price that could be linked to Brexit issues. You also said you'd like to see a more comprehensive carbon tax or carbon price, but I'm interested can you comment if you see anything really specific and concrete in the kind of near-term horizon that could help the carbon price? For example, you know, do you think there could be further tightening in the EU scheme rules? An increase in the linear reduction factor? Do you think maybe a carbon border tax is going to mean that the EU ETS price could go to a higher level? I know you don't give your own carbon price forecast, but I'm interested in your discussion on carbon, and whether you see anything concrete that we should factor in when we think about where the ETS price is going next. So, that's my first question.

Then, the second one, apologies, coming back to Uniper, I noticed in your release this morning you talked about increasing your representation on the board, but you added, 'This should include the chairmanship,' which I think I'm right in saying you hadn't said in the previous call we had with you. I know there was some discussion, but I don't remember you putting that so explicitly in writing. So, can I just confirm, is it your position that if a deal with the activists is approved, then you have decided you would like to replace the Uniper chairman, and then would that be something we should expect at next year's AGM? Do you think, I suppose relatedly, that if you have appointed the Uniper chairman, does that have any implications for whether the rating agencies will look at Uniper as an operationally independent company which can have its own credit rating, or the opposite? So, that's my second question. Thank you.

## **Pekka Lundmark**

Okay. Thank you, Sam. Two quite different questions, and I'll start from the first one, which is the carbon market, of course. In the big picture, we believe strongly that carbon trading, and especially a volume-based system like ETS, is the best way, in the most efficient way, to allocate the available resources to emissions reduction, so that's why we support this instrument 100%, and that's why we have said that we would welcome any measures to further tighten the system, either through tightening of the linear reduction factor. There will be a review, I think in the year 2021, and then the other possibility, of course, would be to make a decision that the 24% intake rate in the MSR would be continued after the year 2024. These are both measures that we are constantly advocating in our discussions in Brussels. Then, another thing which is even bigger, of course, is then that if there would be a possibility to widen the scope of the system so that when it currently covers a little bit less than 50% of the European CO<sub>2</sub> emissions, that we could perhaps include, also, decentralised heating. I mean, other than district heating, potentially transportation and even the rest of the emissions. For example, in the agriculture, in the future.

These types of things are easy to say, quite complicated to implement in practice, but I have noted with great interest the comments from both the president-elect of the European Commission, and the German government, that there is an interest to look at the ways how to expand the coverage of the ETS system. So, we would support all these initiatives. Is there were anything concrete that we would be able to say as to the likelihood and timescale, unfortunately not, but this work will definitely continue. Then, actually, we did already say at the time of the announcement that we do feel that once we get over 70% position in our ownership that it is only natural that we also request a chairmanship position. I don't think, Sam, that it was mentioned in the investor call, but it was mentioned in the media call later that same day. Then, what the implications of what all this would be to how to deal with the rating question, I would ask Markus to take that one.

## **Markus Rauramo**

Okay, so maybe I go back first to the Fortum rating. As we have said, the investment grade rating for us is important and it's a key priority, and we will take measures to manage our balance sheet and our leverage as needed. The dialogue with the rating agencies on all of these aspects is very good and we follow their criteria very closely. We note from the agency reports that they expect to resolve the credit watch for both companies when the transaction closes and they receive clarity on potential remedy measures. We recognise definitely the importance of Uniper's rating for the company, for its business and for its trading activities, so we are absolutely conscious of this and take it into account.

## **Sam Arie**

Marcus, thank you, really helpful. Do you mind if I could just quickly ask on that last point about potential remedies? I think one of your slides today, is it page 21, you talked about ongoing actions to delever, but I don't think you said yet what those actions might be. So, I'm sure there's a sort of general tighter of focus on cash flow and so on, but are you thinking of anything more significant like a new cost target or a new set of divestments or asset rotation?

## Markus Rauramo

Yes. We haven't communicated specifically what those measures could be, but historically, we have a good track record actually on managing very actively our balance sheet, our portfolio and taking cost measures also if and when needed. So, we have historically had good levers that we can use, and our organisation is very on top of all of these issues, and operational excellence is our number one priority at the moment, so prioritisation of Opex, Capex, looking very constructively at the whole portfolio.

## Sam Arie

Okay, super-clear, thank you very much on both questions.

## Operator

Our next question is from Peter Bisztyga from Bank of America, please go ahead.

## Peter Bisztyga

Yes, good morning, so three questions if I may. Firstly, regarding Uniper reactions to your recent stake interest to 70%, we've just had a question saying that you're seeking a chairman and appropriate board representation, but Uniper seem to be very hostile to this idea. So, I'd like to ask, what happens if Uniper refused to give you the board representation you hope for? What steps will you need to take? Then, also more generally, how do you hope to restore the relationship with Uniper when each step you take seems to greatly frustrate them? Second question, just on recycling and waste, that seems to have been a source of underperformance on more than one occasion since you acquired Ekokem, and I'm just wondering if you can elaborate a little bit further why market conditions there are poor relative to your expectations, and what options you have to fix that? Then, thirdly, RDIF letter of intent, I'm just wondering if that's a quid pro quo for your Federal Antimonopoly Service approval for your latest move on Uniper?

## Pekka Lundmark

Okay, thank you, I start from the Uniper reaction. Of course, we cannot comment on Uniper's behalf what they feel about the different steps. We have tried really hard for a long time to build a good relationship, and we are all the time in discussions with both management and also with the employee representatives. One key reason why we now offered this, and actually are committed to this, two years of no DPLTA, no squeeze-out, no delisting, is that this would now give both organisations time to really get to know each other and create a joint vision, joint strategy. The discussions we have had earlier with Uniper have been from this point of view encouraging, and they have strengthened our belief that there is definitely a good business case for the creation of a joint vision and a joint strategy. Still, I'm continuing to be hopeful that once we get clarity restored to the shareholding situation, and when it is really clear that who is the main shareholder, that we would then

quickly be able to proceed on the strategic alignment. Then, as I said, very importantly, on an agreement with the employee representatives that takes care and addresses the employees' understandable concerns. Markus will comment the RWS question, but just to take the last question, there is absolutely no connection between RWIF and the Federal Antimonopoly Service process. These are two completely separate things.

## **Markus Rauramo**

Okay, and on the recycling of waste solutions, my perception would be that this is more short-term volatility than structural issues, actually the opposite, that structurally there is good support for the business. The volatility has come from treatment volumes, it has come from project margins, for example, in environmental construction, and these have not always been satisfactory, but things we think that can be corrected in the business. We are continuously developing, we are increasing our plastics recycling, metals recycling, focusing on the businesses that actually are trend-driven, and we work, for example, on pricing initiatives, on improving our pricing and capacity utilisation.

## **Pekka Lundmark**

Maybe if I add one thing which is also very important, and that is that one of the fundamentals which is driving the profitability of the RWS business is the gate fee development for waste, and that has clearly met our expectations, that has been positive. So, these quarterly variations, and I think we had one weak quarter last year, three quarters were good. Now, the first two quarters of this year were good, the third quarter was weak. This is more related to the execution of certain environmental construction projects than fundamentals in the business case on the waste treatment itself.

## **Peter Bisztyga**

Okay, thank you, and sorry, if I could just come back to the Uniper question. Can Uniper refuse to give you the board seats that you're asking for, and if they do, what are your options?

## **Pekka Lundmark**

This is something that we are now discussing with Uniper, so I do not want to speculate on the different alternatives in public.

## **Peter Bisztyga**

Okay, thank you.

## Operator

Our next question is from Gerard Lean from the Institute and Financial Management. Please go ahead.

## Gerard Lean

Hello there, thank you. So, looking at Uniper's coal assets in the Netherlands, I was wondering what Fortum felt about the corporate image impact of seeking compensation for closure of Maasvlakte 3 by the Energy Charter Treaty, especially given the rather low value of that asset indicated by RG's sale of a similar plant recently? Thank you.

## Pekka Lundmark

Thank you. This question would actually be for Uniper to comment, so I will only answer in a very general level. There have been interpretations presented or suggested that that they would be resisting the coal shutdown in 2030 itself. Our understanding is that that is not the case. The question is that, what is the right level of compensation so that all the international commitments, including the international energy treaty, which is a key international investment protection agreement, that how these are addressed in the correct way. So, this is definitely not, an attempt to resist lowering the share of coal in European power production.

## Gerard Lean

Thank you.

## Operator

Our next question is from Mr Rodjisky from Citibank.

## Karl Rodringski

Hi, good morning. I actually have two questions. The first one is on Uniper. You mention (inaudible), you buy mainly for the cash flow and for the dividends, that was initially that I remember. Does the potential consolidation of Uniper change your view on the dividend stream from Uniper given the credit rating of both companies? Does this change, and how, the calculation? Second, if the Uniper, initially also you were interested in only part of the assets. Do you have, or will you have, and what is the influence you can have on potential disposal of Uniper assets because Uniper is at the moment preparing the strategy? Will you have influence on this, and how you can really impose your potential future outlook on the company, what you want them to do? Will this be already present in the asset strategy that they are working on?

## **Pekka Lundmark**

I will take the second question and I ask Markus to comment on the dividend question. What we now really seek is a strategic alignment with Uniper, and as I already said, one key reason why we are committed to these two years of no domination agreement is that there would now be time to really create a joint vision and a joint strategy that would then also be reflected in whatever asset strategy these two companies together would choose. We are, as our starting point, interested in Uniper as a whole, so there are no predetermined conclusions as to what kinds of actions would be taken. This is something we need to discuss with Uniper jointly. Of course, what remains is the fact that the 30% which is Uniper's generation which is coal, all European countries are working on coal shutdown time schedules. This is going to be business as usual. We certainly support these initiatives. So, there will be a time when coal will be out from the production mix, but all the other assets, we see quite a lot of potential in the long term, and this is something we want to, now in a constructive way, discuss together with Uniper's management, how these two companies' strategies are aligned in the best possible way.

## **Markus Rauramo**

Then with regards to the question about transaction dividend, rating, etc., it's a very fundamental strategic question, of course, and any transaction, any investment we consider or we make, actually its target is to increase value with the risk return fundamentals. So, over time, what any transaction would target is to improve our profit, improve our dividend-paying capability, and it has to be done with the right risk and return level. How that applies in practice is that the access to capital for us is very important, and to have the access to capital at all times we need the investment grade rating. So, when we do something, we build our thinking around these fundamentals, risk, return, value creation.

## **Karl Rodringski**

Okay, but basically, kind of reducing the dividend at Uniper would actually improve because you will start consolidating this, so I was just asking whether, you know, the fact that the cash was there, the holding level on the consolidated basis and there would be no leakage to minorities, speeds up the leveraging process. Is this on your mind?

## **Pekka Lundmark**

No, this is a wrong interpretation. We have not said anything about the dividend policy. We have been a supportive shareholder when it comes to Uniper's dividend policy and we have no predetermined conclusions or opinions that it should be changed in any particular way.

## **Karl Rodringski**

Okay, thank you very much.



## Operator

Okay, our next question is from Sam Arie from UBS. Please go ahead.

## Sam Arie

Hi, thank you. Apologies for coming back on, but I'm just picking up this really interesting discussion about, sort of, joint strategy formulation with Uniper and just reflecting that, I guess, next year it's coming up four or five years since the last major Fortum strategy review and a lot has changed since then. I guess, you know, renewables, storage, carbon, the whole Uniper opportunity which wasn't really visible when you did the last strategy review. So, I'm just wondering, if you go through this process of aligning your approach with Uniper, are you thinking of refreshing the Fortum strategy? In that context, is it possible that some business units that previously were seen as core could maybe become non-core? I'm particularly interested, for example, if you see the customer solutions as a long-term core activity for Fortum, noting that, you know, some other European utilities have decided not to participate in that part of the value chain? I guess I could ask the same question about City Solutions as well. I know it's early days, but I just wonder if you can comment about the possibility that it might change your thinking on what's core versus non-core on the Fortum side.

## Pekka Lundmark

Sam, you are right. This is really early days for your question, but perhaps what I would like to say is that when we talk about joint strategy work, it is not only for the Uniper part of the combined businesses. It is definitely for the Fortum part also. So, we wanted, together with Uniper, to create a strategy for the combined group. Again, there are no predetermined conclusions as to what there should be and what there should not be, but in the theoretical case that there would be then a decision that something would not be core, that could be on the Fortum side, that could be on the Uniper side. This is not something that now we come in and create a new strategy for Uniper. We want to create, together with them, a strategy for the entire group.

## Sam Arie

That's really interesting and helpful as an answer. I mean, I guess the question is, I assume you wouldn't do that kind of strategy thinking until you get the latest shareholder transaction approved, and yet, as you mentioned before, the rating agencies are going to, sort of, come to their view about the future credit rating for the business when that transaction is approved. So, will the rating agencies have some visibility of your future thinking on strategy, before they have to, kind of, conclude their watch period, or are you able to, kind of, come up with a strategy review, somehow in parallel to the current approval process, such that maybe Q1, Q2 next year, we might see the deal approval and the new strategy at the same time? I'm just thinking, how does that work? Thank you.

## **Pekka Lundmark**

We have had already, last Spring, pretty constructive strategy discussions with Uniper, and we also then started several cooperation initiatives. Already then, I was quite hopeful that the creation of a joint vision and strategy is entirely possible when recognising that we want to address all three aspects of the energy dilemma and very much not forgetting security of supply. So, we are ready to continue this discussion at any time, and this is irrespective of the time schedule of the closing of this transaction. Again, Markus will comment on the credit rating question, but there also, of course, a very important part of this always, the commitment of no DPLTA for at least two years now. Squeeze out the no deal listing for two years. That really will give us, and both organisations, the time to really create the joint strategy without having to worry about this type of structural thing at the same time.

## **Markus Rauramo**

Again, to go back to the rating agencies. So, first of all, the dialogue is good. We think we understand the criteria and the requirements. We respect that Uniper needs a strong rating for its training activities and to run its business. For us, the investment grade credit rating is a great priority to give the access to funding and we have the readiness to take measures to manage our balance sheet and our leverage, what is in our control and that we have taken into account when considering and then implementing in the transactions.

## **Operator**

Our next question is from Vincent Ayrat from JP Morgan. Please go ahead.

## **Vincent Ayrat**

Yes. Just answering back on your last comment regarding security of supply, it's quite keen energy transition. I would be interested in knowing, what is your main argument for getting a fair compensation on basically the asset that will help the security of supply, through at least the first stage of the transition, in which are pre-existing. So, I'm talking about existing, for example, CCGTs in this case, oil and hydro, versus the Europe energy strategy saying, okay, we'll put an incentive for new investment, what's existing is there already. So, I'd like to understand a bit, how do you look at it and, if you're acquiring Uniper here also as a way to increase and to purchase existing assets that can bring flexibility, what is your vision regarding how this will be compensated by Europe in the coming ten to fifteen years? Thank you.

## **Pekka Lundmark**

Thank you. That's an excellent question and it's impossible to give a detailed answer, but on a general level, of course, we all, I guess, would agree with the fact that when Germany shuts down nuclear and when coal is being pushed out as well, that means that despite the fact that solar and wind will increase a lot in volume, we are going to have to accept the fact that the role of strategic importance of gas as provider of

flexibility will increase, and that will be an extremely important part of the equation. Now, then the question will be that, what will be the right remuneration mechanism for this? This is something that is currently being discussed. The fundamental principle in the European Energy Union has been that it would be predominantly energy only, but then it means that the regulators and politicians would really, really have to let the market work and accept things like scarcity pricing, and that way give investors sufficient comfort. More gas-fired investments will most likely be needed. Existing assets would most likely need more running hours. How exactly that is to be compensated, if energy only will not work, that is something that must be discussed and that discussion is ongoing, but I do not want to pre-empt our process in this because this is definitely going to be one of the very important aspects that we want to discuss together with Uniper's management going forward.

## **Vincent Ayrat**

Thank you.

## **Operator**

There are no further questions at this time. Please go ahead, speakers.

## **Ingela Ulfves**

Thank you, operator, and thank you for all these questions. We do have some questions on the chat. So, I will hand over to Måns for questions.

## **Måns Holmberg**

Yes. So, the first question is from Sebastian Rettas from Uhrgevald and he asks, now that Uniper is probably becoming a subsidiary of Fortum quite soon, will Fortum make sure that all coal plants of Fortum and Uniper will be closed by 2030 at the latest, to be in line with the Paris agreement and in line with the situation in Finland? Would you agree that a slower phase-out strategy, the planned inauguration of Datteln 4 and Uniper's announced Energy Charter Treaty claim against The Netherlands represent a very serious reputational risk for Fortum and jeopardise the coherence of its climate efforts?

## **Pekka Lundmark**

I mean, we are, as I have said many times, we are supporting ambitious climate goals for Europe, and hopefully, the new commission would institutionalise an official carbon neutrality target for Europe. Our suggestion is, that then, the ETS system would be adjusted accordingly so that the linear reduction factor would be increased, latest after 2030, but hopefully sooner than that so that that would then drive the market

on using market mechanisms towards full climate neutrality for the ETS sector by 2050. We all know that there are currently different realities in different countries. We are ready, at any time, to discuss the right mechanisms for very ambitious coal phase-out time schedules. Currently, it seems that the German government will continue to have 2038 as a target, and that target will then include a ramp-down schedule for the coal capacity that would be in the system for each year. I do not honestly think that we as a company will have that big possibilities to influence German government's decisions in this respect, as to how much coal will be used. Absolutely, coal, since it needs to go, it needs to be phased out, it's not a future technology, it needs to go and, of course, in today's environment where people, for a good reason, are concerned about climate change, using coal is always a reputational risk, and it continues to be a reputational risk as long as it is used. That's why we need to increase renewables, we need to replace coal by gas, to the extent security of supply is needed when renewables are not there. This is all part of our strategy, and the Uniper investment does not change this a bit.

## **Måns Holmberg**

Okay, thank you. Then we have one last question still from Andrew Moulder and he asked, when you fully consolidate Uniper, will you be giving an economic net debt number, as the German companies typically do? With the consolidation of Uniper, do you target any specific economic net debt-to-EBITDA ratio?

## **Markus Rauramo**

Yes, we currently have our own financial KPIs, Uniper has their own financial KPIs and we will come back to these issues at an appropriate time if needed.

## **Ingela Ulfves**

Thank you so much, and with these questions and this discussion, we now conclude this session here today. Thank you for your very active participation. Wishing you all a very nice rest of the day.

## **Markus Rauramo**

Thank you.

**Pekka Lundmark**

Thank you.