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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

Hello and welcome everybody to Fortum's full-year 2018 results web conference, both for you here in Cayman, in our headquarters and everybody online. Please note that this event will be recorded and you can see a recording afterwards on Fortum's website. Today we have Pekka Lundmark, our CEO and our CFO, Markus Rauramo, presenting our full-year results and after that presentation you will be able to ask questions, both directly here in the audience by raising your hand or then through the chat online, or by telephone.

But please, Pekka, the stage is yours.

### Pekka Lundmark

Thank you very much Måns and good morning investors, media and whoever might be watching, either over the network or here in Espoo. Welcome to this event, where we go through our full year results and I would like to say that we are, overall, pleased with the results: a solid quarter ended a year that was quite eventful. Of course we had a key event in the fourth quarter, our capital market day, where we updated our strategy, we presented our four priorities, going forward, which I will not go into today but they will, of course, be guiding our work in the coming years.

The most significant event during the whole year was, obviously, the investment in Uniper and I would like to briefly reflect on the current situation because this is, of course, such an important matter that is still ongoing. First of all, since the closing of the offer, we have increased our shareholding to 49.9% of Uniper shares and voting rights and we have done so to further secure Fortum's voting position in any future general meeting of Uniper. This is the shareholding point but let me take one step back. When we first announced our interest in Uniper I said that together we could not only create value for our stakeholders but we could also, together, accelerate the European energy transition even more and I strongly continue to believe in this. We have a clear vision for how Fortum and Uniper could jointly build what we would like to call the utility of the future and we want to work with the company to explore how to best make this vision a reality for the benefit of all shareholders and stakeholders of both companies. However, over the last six months, we have made only little progress and that is disappointing, not only for us at Fortum but also for shareholders of both companies and surely also for the employees but we are continuing our talks with the company, both with the management board and with the supervisory board and we are not walking away because there is so much value to be created, so let us see where this will take us.

Then, when it comes to other matters of the year, the – of course the year was characterised by higher Nordic barrel price during the year, which supported our results. The year was very dry. Hydro inflows, the reservoir levels, are still lower than normal. A very important thing during the year was obviously the commodity and CO<sub>2</sub> development. CO<sub>2</sub> price tripled during the year, which means that the emission trading system that Europe has is now starting to work, which is, of course, a very good thing.

Financially, the year was a good one. We reported 19% increase in comparable EBITDA and 22% increase in comparable operating profit. Then, when it comes to both EPS and cash flow, there's a lot of items affecting a lot of things and Markus has promised to take us through it later, through all these specific items in detail, yes.

What I will say, though, is that obviously the balance sheet discipline, which is extremely important when it comes to our credit rating, among other things, that will continue to be in focus and we are going to be very disciplined when it comes to new investment and CAPEX decisions. And as you probably already have seen, the board of directors proposes an unchanged dividend at €1.10 per share, which means that the goal that we set ourselves – for ourselves a year ago, that we would not need to temporarily cut the dividend we have during this year – been successful with that goal.

Then, a couple of highlights about the fourth quarter: the power price increase is really quite remarkable. The Nordic price in Q4, compared to the Q4 a year before, was up 56%. As I already mentioned, hydro inflows and reservoir levels are low. Volatile commodity and CO<sub>2</sub> prices and the result of all this is an improvement of 12% in the EBITDA and 13% on operating profit on a comparable basis and the same comment, also, when it comes to Q4 that there's a lot of items that Markus will go through.

A couple of other highlights around Q4: we are progressing quite fast now on our wind investments. We commissioned a 50MW wind farm in Ånstadblåheia in Norway. We started – actually I think it was official on 1<sup>st</sup> January this year, the operations through our joint venture in Russia of a 50MW wind at Ulyanovsk site. We already, before this, had a fully, 100% Fortum-owned, 35MW wind operation in Ulyanovsk. And as earlier announced, this project, together with our partner in Russia, will continue. We have decisions to build a further 250MW and 100MW of wind to be taken into use in 2020.

Then, perhaps result-wise in the short term a smaller thing but strategically very important: we made a decision to install, in Sweden, Nordic's biggest battery system, a 5MW battery that will be installed in connection with our hydro power plant and that will be acting in the same way as a corresponding, slightly smaller, battery in Finland, working on the balancing market – the frequency regulation market – together with the ESOs in the respective countries.

Valo Ventures: as part of our strategic priority number four, we are building seeds for new businesses in the long term and an important step here was the launch, together with a former co-founder of Google Capital, a new venture capital fund of €150 million that will invest in the intersection of digital and certain, for us, relevant megatrends, such as decarbonisation, climate change, circular economy and urbanisation. And then, last but not least, quite an important milestone when it comes to one of our most significant assets, which is the Loviisa nuclear power plant, the digital automation project which ran there for several years has now been successfully completed.

I already commented the low hydro reservoirs. They were actually quite close to the normal level in the beginning of the year but then they declined to quite low levels during summer due to very dry weather. Then, in August–September, there were record rains in Norway, that increased the water reservoirs rapidly. You can see the development of this picture, it's – 2018 is indicated with an orange colour and here now also we shed a little bit more light on the Nordic reservoir structure. You can – as you can see, this is clearly dominated by the reservoirs in Norway. We are not in Norwegian hydro, we are in Finland and Sweden, which are of course both important but, in relative terms, smaller than Norway.

The reservoir levels were, at the end of the year, 9 TWh below the normal and 12 TWh below last year and the dryness has continued during January, at the moment. The latest situation is roughly 11 TWh below normal and 9 TWh below the situation a year ago.

Some quick comments on commodities: coal price movements were heavily China-dependent, with the early part of the year characterised by a positive macroeconomic outlook, strong demand growth and lagging domestic coal production. Towards the end of the year, the coal prices were driven by the wider commodity complex that turned quite bearish in October and this, coupled with weak imports into China for utilities ended, there stock building resulted, then, in slightly weaker price towards the end of the year.

The gas market throughout the year was very tight because of the cold winter in 2017/2018, leading to high storage injections during the summer. And then one thing that started to affect the market balance towards the end of the year were strong LNG imports that brought prices down from October onwards.

CO<sub>2</sub> – I already commented earlier that it actually did triple during 2018, mainly due to the market now pricing in the tightening effect of the market stability reserve, which started now in the beginning of January 2019. And now the EUA, the emissions allowance price, has risen to a level that has now started to indicate more coal to gas switching in the coming years, which is, of course, what this mechanism is supposed to deliver. We have put into the investor package quite substantial information about how all this works; I'm not going to go through all the details now but we thought that it would be – because this is such an important driver now for power prices that we would give investors a summary of the most relevant facts around the whole ETS directive and market stability reserve. One note, though, if you look at the graph on the right-hand side of the picture, the green colour indicates the so-called coal to gas switching range, which of course depends on coal prices, gas prices and then the efficiencies that you use: low efficiency and high efficiency. We have here taken quite a narrow band between low efficiency and high efficiency and with today's emission allowance price, as you can see – the black line – we are now well within the switching range, which is indicating that the market is pricing in quite much more switching now, for 2019, than what was the case in 2018. And this is quite an interesting development to note, for several reasons.

Sorry, a couple of other things on the regulatory side. The second bullet point is significant. As you know, Fortum supports ambitious climate goals. The European Commission has started the Climate Strategy 2050 work through a long-term framework discussion; they have presented different scenarios and Fortum, in its work with the Commission, has made it very clear, together with some other Nordic power companies and actually some industry and other associations now recently that we are ready to

support the most ambitious target, which would be CO<sub>2</sub> neutrality for Europe by 2050. And we would encourage the Commission to take action to develop the policy measures that would drive, in a transparent and market-driven way, the emissions to neutrality by 2050, meaning that if there are emissions, they should then be compensated by carbon sinks.

The other thing I wanted to comment about regulatory update, obviously, is the very important piece of news regarding the German Coal Commission, which handed over its proposal to the government and most of you, I guess, have seen the details, that 12.5GW in total would be shut down, including the already-made – earlier-made decisions, would be shut down by 2022 out of the comparison level of 42.5GW of coal capacity that Germany had in the reference year, 2017 and an additional 13GW would be shut down by 2030 and then the rest by 2038.

We at Fortum – we welcome the report, first of all. It's a responsible and holistic approach to phasing out coal and it is in line with our vision for a cleaner world. Enforcement will require difficult decisions but we believe that there will be, also, significant opportunities and now we hope that the German government will decide the further actions as soon as possible and start preparing respective laws and regulations swiftly because further clarity and detailed rules on compensation is necessary for the operators to make decisions on their capabilities; it's really, really important so that we get more clarity around the whole situations.

One important thing to note is that the report enforces the importance of gas during the transition towards a fully de-carbonised energy system. When Germany shuts down nuclear and simultaneously with that starts shutting down coal, it automatically increases the importance of gas because it is a fact that the wind will not always blow and the sun will not always shine.

Of course then, when it comes to specific assets, then the companies operating in Germany – and in our case, of course, the interest is in Uniper – they are the ones who will need to then make comments about specific assets and then participate in the – directly in this discussion with the German government.

And one further point: the Coal Commission's suggestion to cancel the CO<sub>2</sub> allowances in order to mitigate the national decision's impact on the EUETS system is absolutely the correct one. We strongly support this position that the Coal Commission has taken.

Nordic power price development, as was already mentioned, has been strong. Here you see that the trend changed in 2015. Nordic average system price for the year was €44, which was almost €15 higher than the year before. The spot price increase was mainly due to clearly higher cost of coal condense production as a result of the carbon price EU – or emissions price increasing, as well as higher oil price, so it's a combination of this too. And then, of course, the power price was further supported by drier hydrology.

There has been quite much discussion in earlier events about the German-Nordic spread, so we thought that we would also put that information now here. In 2018 the spread in the spot price, which of course is a totally different thing than the spread in the forward price, was actually very narrow. Historically the spread in spot price has varied between –€1 and +€15 on an annual level and 2018 was clearly at the lower end of this range. The spread was €0.50 per megawatt hour. The price spread has been influenced by not only supply/demand fundamentals but then also things – of course they are also, in a way, fundamentals but the Nordic hydrological situation typically affects this spread a lot.

Then the financial market, the forward price – as you can see, it is expecting the German-Nordic spread to increase and it has varied a little bit during the year. This is the forward price for the year 2020. It was quite wide in the beginning of the fourth quarter and now it has narrowed a little bit. Supply/demand balance in the Nordic area and continental Europe will always have an effect on this price spread and looking at the things that are changing, increasing interconnected capacity between the Nordic and the Central Europe should contribute to a lower price spread but at the same time, wind production in the Nordic is estimated to increase, which is working, then, to the other direction and there are other variables in this, of course, going then forward into the 2020: the German nuclear shut-down will definitely have an effect, the German coal shut-downs and the continued renewables investments in Germany will also have an effect. So this is a complicated picture overall.

Here you see – on the next slide you see in a graphical format the power price development. Once again, Q4 spot price in the Nordics up 56% from the year before. Of course we are hedging significant parts of our production but despite that we also then did get an increase in our achieved price, which was +16% compared to a year ago, so this is, of course development that, from our point of view, is going to the right direction.

In Russia, spot price was up 6% but then when we take our achieved price in euros then, mainly because of the weaker rouble, we are looking at a result which is -4% compared to the year before.

And then, before Markus continues, I will make a few quick comments on each division's performance, Generation first. Overall, because of the dry hydrology, the 19.1 terawatt hours hydro production that Generation had in the year was one of the lowest in our history. Q4, in relative terms, compared to the year before, was a little bit better than in Q3 but also Q4 was almost too – it was almost one terawatt hour lower in production than last year. In Q3 the difference was around two terawatt hours. So it is shrinking a little bit but still behind.

Nuclear production, again, was higher last year, which supported the result and then higher achieved power prices and lower taxes in Sweden supported the result. And of course, on the annual level, comparable EBITDA going from €603 million to €762 million is a good result and the same can be seen in comparable operating profit as well and comparable return on net assets grew to 11.2%.

City Solutions did improve their result slightly: Q4 from €110 million to €113 million in EBITDA and comparable operating profit from €61 million to €68 million, so this is going to the right direction but our ambition level is clearly higher. We are not yet happy with this result; we have actions ongoing, both in the Hafslund integration but also in several other fronts, where our goal is to improve the result from this level. This is now, as I said, developing to the right direction but fairly slowly. You can see some signs of improvement but we want to go higher.

The same comment about Consumer Solutions. We have, in EBITDA, a strong improvement in reported comparable EBITDA from €57 million to €110 million but, just for transparency, I want to highlight here that that includes an accounting change coming from IFRS 15 which had a positive effect of €32 million and it has to do with the capitalisation of sales commissions, that had to be reported to be compliant with IFRS. So this affects comparable EBITDA in a positive way but of course even without that, EBITDA would have improved, mainly because of Hafslund. I said in the beginning of last year that 2018 would be a challenging year from a profitability point of view, which was, of course, exactly what happened but the same comment as about City Solutions: that now the synergy effects through the Hafslund integration, which are on track to the 2020 targets that we have published, they will start to deliver results, as we expect during 2019.

Russia had, again, a good year. We suffered from currency headwinds. On an annual level it was quite a lot, actually. When we report in euros, we suffered €32 million altogether; that's why our comparable operating profit for the year was €271 million compared to €296 million for the year before. The other reason why this was slightly behind was what we also reported earlier: there were some bad debt provisions, mainly dealing with the bankruptcy of one of the electricity retailers in that country and the combined effect of that and then the weaker rouble offset the very good operational development in CSA payments, inaugurating new power production capacity, this time mainly in renewables. But overall, despite currency headwinds, operationally a very good year in Russia. We are pleased with our development there.

And now I would ask Markus to continue from here.

### Markus Rauramo

Okay, thank you Pekka. So, I will start with a recap of the fourth quarter. Q4, compared to last year, was up €38 million and that was driven by the better prices and lower taxes in Generation, higher power sales volume and prices and seasonal heat pricing in City Solutions and in Russia, higher CSA payments and the contribution from the new production units, even despite the mentioned FX headwind.

If we have the same look at the full year, up year on year €176 million. In Generation higher prices, lower taxes, somewhat offset by the lower hydro and lower nuclear volumes but in City Solutions and Consumer Solutions the consolidation of, now, Fortum Oslo Varme and Hafslund Market has a positive impact, even if they were partly offset by the weaker result in Recycling & Waste business and on the other hand, lower sales margins in Consumer Solutions and the negative impact from the ended service agreement that we have been supplying.

Russia improved operationally, quite significantly actually but then the – on the comparison basis the positive impact from the bad debt recovery in 2017 and the negative effects impact of €32 million mean that, in euros, the comparable number went down €25 million but operationally the underlying number, actually, is better.

And then finally, in Other, a €23 million improvement year on year, driven by the profit of selling the 54% share of our Indian solar power plants.

Then I move over to the key financials. On this slide I will only comment shortly that, as we discussed already before, sales improved both in Q4 and for the full year: EBITDA up and comparable operating profit up. Then, for the rest, there are many items impacting the profit before tax and cash from operating activities and I will open these up on the next two pages.

I will focus here now on the line items affecting comparability: share of profits of associates and joint ventures and finance cost. So I start with the items affecting comparability in Q4. In the now most recent quarter, in the items affecting comparability, we had a nuclear fund adjustment impact for Loviisa liabilities negative around €20 million, so that was the main item. But actually – and we open up this in our report – it is due to that the anticipated costs in – for Loviisa liabilities are reduced. That means that we reduce our provision and thus we can recognise less of the overfunded asset. So we actually have to take the asset down, so a positive thing looks negative here on this line. We are still about €250 million overfunded for the Loviisa liability but – which we cannot recognise here but this we open up in the report.

On the other hand, for Q4 2017 we had impairment reversals, capital gains and fair valuations. That all amounted up to the €20 million positive. For the full year, if we look at items affecting comparability for 2018 full year, we had the Hafslund product shown, sales gain about €100 million, fair values about €100 million and then nuclear fund adjustment relating to the same issues and these all total – that was a negative item and these all total the number of €151 million. Correspondingly for 2017, the biggest item there, as we have seen in many quarters, is the gain from the Hafslund restructuring, €326 million and then some smaller fair value positives adding up to €347 million.

Then if I go to the next line, profit from associates, there – and you can find in the report the associated company results – total, Oskarshamn, is around €60 million and the biggest part of that is changes in our nuclear accounting assumptions. This bigger part is then offset by the changes in nuclear assumptions in the finance cost, which is also disclosed in the report, which is around €50 million and the rest is then in taxes and also the comparable operating profit. The nuclear assumption changes, net out, to be very close to zero. Part of the Oskarshamn result is also relating to the increased decommissioning cost that has – that Oskarshamn has assessed, so this is then separate from the changes in assumptions and then other associates were about €20 million positive.

On the other hand, in 2017 fourth quarter in profits from associates, the associated result was somewhat stronger, so year-on-year, there is a negative impact from somewhat weaker results from other associates and then the big part is the Oskarshamn.

For the full year 2018 we have the same impact as I just described for the fourth quarter and then a Stockholm Exergi, which is the biggest contributor in associates, was somewhat weaker than in 2017. DGC1 share of profit was, on the other hand, a little bit stronger. But all in all, leading to that – the profit from associates for 2018 was €38 million versus the €148 million from the previous year. And of course the – one item that is not included anymore in 2018 is our share of the Hafslund profit, which now shows up in the comparable operating profit and EBITDA.

And then finally, on the finance costs, when we look at the past quarter, Q4 of 2018, our interest costs have come down somewhat, so interests are lower than the corresponding item in 2017. Then we had loan and investments right down into start up and venture businesses, that was a negative and then a big positive from the change of the nuclear assumptions. And these all add up to –€4 million. In Q4 2017 interest was somewhat higher and other net was very small, so the total is €49 million.

For the full year 2018 interest cost has come down; that is the biggest item. Then interest income was at the same level as 2017 and then nuclear-related bookings are somewhat positive and they were a little bit more negative in 2017.

So, if I try to summarise, then and boil this down to a simple explanation, the changes in the nuclear assumptions that we are describing in the report, they are net zero. Then we have the adjustment in the Loviisa share of the nuclear fund relating to the liabilities, negative here but positive in actual costs. Oskarshamn decommissioning provision increase is an actual negative as well and this is relating to that – we have the different funding rates in the Swedish and Finnish funds. And then, on the other items, 2018, the biggest item in the gains was the Hafslund product shown and Hafslund restructuring, very big gain in 2017.



So I hope that this opens up a little bit; we have tried to disclose all of this well in the report and the different notes there. Then I move over to the cash flow statement, so if we start from the top EBITDA is clearly stronger, so business has been improving, year on year, both for the quarter and for the full year.

On the realised FX there is positive item – positive change, both for the quarter and for the year. This is due to the weaker rouble and weaker Swedish krona that means that, when we roll over our internal loans, actually when rate – the FX rate is moving this way then cash is released and that was €314 million compared to full-year 2017. In working capital, we have a big negative swing, both in the quarter and in the full year and this is due to two factors that we have opened up a little more here. Part is due to that more cash is tied into the cash-settled futures, which is the €226 million in Q4 but this is a good thing for us; that means that prices go up and we have to post more cash settlement for the futures, in the long run, a positive thing. Other working capital, same issue: more sales, higher prices, which means more receivables. And of course eventually, as we go on, these positions will unwind and cash will come back.

CAPEX is down €80 million from 2017 and we ended up even slightly under our guidance. That was due to the fact that some tens of millions rolled over from 2018 to 2019 and I'll come back to the guidance in a minute. And then the big items, on acquisitions and divestments of shares, 2018 the biggest part, of course, was Uniper also then impacting Q4 of 2018. And then, in 2017, both on the acquisitions and divestments, the Hafslund restructuring and 2018, also Hafslund Produksjon, sale and sale of the solar business.

And then I move over to the key ratios and there we can see that EBITDA increased to €1.5 billion, a healthy increase from 2017. Net debt increased to €5.5 billion, of course mainly due to the Uniper acquisition but also because of the mentioned working capital increase that I described on the previous page. And this means that our net debt/EBITDA stood at 3.6-times at the end of the year. Our net debt/EBITDA target is 2.5-times and we believe that we will delever rather fast towards this target, driven by the business performance, driven by the working capital release eventually but also what we mention here on the slide: prioritising of our CAPEX, improving our business through the operational excellence, increasing the flexibility and optimising the business portfolio.

Liquidity is very good: we have €600 million in cash and €1.8 billion in undrawn, committed credit lines. One thing that is good to know here is that there is no Uniper EBITDA, no proportionate share of Uniper EBITDA consolidated in these numbers. Just as a calculation exercise, you can think that if we would release the working capital and include our share of the Uniper EBITDA we would be, actually, very close to this 2.5 target. But nonetheless, we are working the actual reported number also down.

And then to the outlook. On the demand side, we do expect that electricity demand will continue to grow at around 0.5% on average. Hedges, both for 2019 and 2020, are up 10 percentage points and €1, meaning that for this year we are 75% at €31 per MWh and for 2020 we are hedged 45% at €29. The CAPEX guidance for this year stands at the same level as we reported earlier: €600–650 million and this is including maintenance but excluding acquisitions. And then, if and when we are successful with capital recycling, of course we then have to look at how to – how this number is then treated but this is the basis for this year. The targeted cost synergies for Hafslund stand at the same level, so gradually maturing in 2019, 2020, €15–20 million. And finally the tax rate guidance for this year is at 19–21%, so the same guidance as for last year but likely on the higher end of this scale. And then finally the board has called for our AGM to be on 26<sup>th</sup> March and the board also proposed the dividend unchanged at €1.10.

Thank you for listening for this part and now we are ready for Q&A with Pekka.

**Pekka Lundmark**

Thank you, Måns[?]

## Q&A

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**Måns Holmberg**

So, we will now start with questions here in Kellaniemi, so if you have a question, please raise your hand and I will hand you the microphone.

### Artem Beletski

Yeah, hi, Artem Beletski from SEB. I actually have two market-based questions. So the first one is relating to also what you present on page number 18 in your material, relating to switch from coal to gas. It indeed seems that, based on CO<sub>2</sub> prices and fuel prices, we should be seeing more switch happening right now. Is it really something that you are seeing on the market right now and where there are some, let's say, elements like CO<sub>2</sub> hedges, or some producers which are basically preventing this kind of shift on that front?

And the other question relates to Nordic and German price differentials when it comes to forwards. I know there are many moving parts but do you have any, so let's say, view directionally with this kind of quite wide spread that we are seeing right now should be maybe becoming a bit smaller, going forward.

### Markus Rauramo

Well, the second question is extremely hard to answer without revealing what our expectations are on power prices, so we do not comment that. We just explain what the different variables are and to what direction, everything else equal, they would affect. But of course, when you look at – now what the market is pressing in for 2020, they are expecting that the spread would be higher than what it was in the realisation during 2018.

And then the first question was switch –

### Artem Beletski

Switch to coal, yeah.

### Markus Rauramo

There is now more switching going on. There was very little during 2018. We had, actually, an estimate that – but these are very rough estimates – that in 2018 something like 20–30 million tonnes of CO<sub>2</sub> were sent away – switched or avoided through switching. If we take the whole switching channel according to the calculation that we had in the paper, that could be 150–200 million tonnes of CO<sub>2</sub>, which would indicate that maybe 20% of the European power generation and heat production of CO<sub>2</sub> emissions could be reduced through switching but then, I mean, this is highly volatile because the coal and gas prices affect it a lot. But when you look at where we currently are, we are well within that range now and it is starting to happen now.

### Pekka Lundmark

I guess your operational side, that – you are exactly spot on with, actually, the second part of your question. So whatever you have contracted, either gas or coal or CO<sub>2</sub>, that will have an impact on the actual running but eventually, of course, this will float through. So the daily decisions on – let's say if you can choose what you are running, like we can at our Suomenoja plant, then it's a very operational decision, based on what inputs you actually have available at that time.

### Artem Beletski

Very clear, thank you.

### Måns Holmberg

Do we have any further questions here from the audience? If not then, operator, we are ready for questions from the lines.

### Operator

Thank you. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. Our first question comes from the line of Wanda Serwinowska from Credit Suisse. Please go ahead.

### Wanda Serwinowska

Good morning, Wanda Serwinowska, Credit Suisse. Two questions from me, the first one on the Coal Commission in Germany. As the larger shareholder in Uniper, do you agree that Datteln 4 shouldn't go online in the future, given that it probably would be more efficient than the operating coal power plants now in Germany? And my second question would be on the solar investments in India. Given the cancellation of the auction results that you announced last week – or this week – have you changed your view on the investments in Indian solar, going forward. Thank you.



### **Pekka Lundmark**

When it comes to the Coal Commission's report's consequences and ramifications on individual assets obviously Uniper is the one that needs to comment but what I can say on a general level is that we understand quite well and support Uniper's stated position on this one, that since it seems to be a fact now that, according to the current plan, Germany would continue to run some coal until 2038, so it wouldn't be much better to then run, environmentally more friendly and at least in relative terms, less emitting assets than old and dirty assets. So, from that point of view, the answer is yes, we think it should run since coal will continue to run anyhow until 2038. But more into details I do not want to get into – please discuss this with Uniper.

Then, when it comes to solar India, the cancellation was of course an unfortunate event. We do not change our strategy. We believe that we have a good position in India; we were able to show through the previous – what we call recycling, i.e. divesting part of our earlier investments, that we are able to create value and we will definitely continue but not at any cost. I mean there will be new auctions and we will have very strict limits as to the profitability that we are expecting and assuming that they can be met, we are definitely interested to continue but, once again, through the so-called recycling model, where we extract value from building assets, commissioning them and then partially divesting after they are commissioned.

### **Wanda Serwinowska**

Thank you very –

### **Markus Rauramo**

And I guess I can add that the reason for the cancellation, as has been stated, was that the higher – or high solar park fees from the government led to, actually, high tariffs which was then, ultimately, apparently, not the desire of the government, so then they have gone back, resought the solar park fees and as far as I understand, they intend to come back with the new auction.

### **Wanda Serwinowska**

Thank you very much.

### **Operator**

Thank you. Our next question comes from the line of Lueder Schumacher from Soc Gen. Please go ahead, your line is now open.

### **Lueder Schumacher**

Good morning. Lueder here, Soc Gen. A number of questions on my side; the first one is on Uniper. Talks have now not been progressing for a rather long time. You mentioned six months, arguably you could say maybe even a year. Would it be safe to conclude that there just won't be any cooperation and if that is the case, what exactly is the stumbling block in the negotiations? Because I would have thought lifting synergies, even if they're limited, should be in both shareholders' interest. That's my first question. The second one is on your leverage target. You did mention just now that if you were to take the proportionate EBITDA of Uniper into account, you'd already be at your leverage target at 2.5 times. Can I just confirm that this leverage target of 2.5-times is actually for Fortum in its present form, i.e. without consolidating any part of Uniper and also when roughly – what is the aim? How fast should you delever? Is that a target that's feasible over the next 2–3 years and lastly I didn't quite get Pekka's numbers on the fuel switching capacity across the range. If you could just repeat those numbers, that would be fantastic.

### **Pekka Lundmark**

Okay, thank you. If I take questions number one and three and then Markus will take the leverage question. As I already said, we continue to believe in our investment case. There is a lot of value to be created and we have a strong vision of how these two companies could work together to accelerate the energy transition and create what we would like to call the utilities of the future. We are continuing to discuss and as I said, we are not going to walk away and we continue to believe that a solution can be found. We will now see where this will take us.

Then if you, Markus, take the leverage question.

### **Markus Rauramo**

Yeah, I can take that. So, yeah, the comparable number I mentioned was just for illustration purposes. So yes, I do confirm that it is Fortum in its present form, so from 3.6 we are starting but this was more to show that there's one block that we are not even calculating in this number. How quickly would we get towards this target? I would say reasonably quickly. We don't give a timeline but we do observe that when we were downgraded and got a negative outlook, there was a certain time to resolve that

outlook. The more meaningful number for S&P is the 25% FFO to net debt on an adjusted basis, so that's the other important factor that we are following, so that is one of the key numbers that we are observing. But we are – in our own mind we are on track with both of these numbers to get to the right level, reasonably quickly.

### Pekka Lundmark

And then, when it comes to the switching channels, one needs to be extremely careful because there are so many variables and these are not black and white things at all. Well, one variable that – when calculating what that switching channel is, you have to make assumptions on the low end and high end in terms of efficiencies of coal and gas and there is a small print footnote on that chart, saying that we have actually used in this chart a very narrow band, for whatever it's worth. We have assumed that efficient gas would be 49% and low-end, non-efficient gas would be 52% – no, sorry, efficient gas would be 52% efficiency and the low end would be 49%. And then low-end coal would be 34% and high-end coal efficiency would be 36%. So these are the numbers behind the switching channel that we indicate on that slide and that would then give a switching channel of 150–200 million tonnes of CO<sub>2</sub> of this year, which would be about 20% of the European power generation and heat production CO<sub>2</sub> and a very rough estimate of how much switching took place in 2018 could be 20–30 million tonnes of CO<sub>2</sub>. Hopefully this clarifies.

### Lueder Schumacher

Okay.

### Markus Rauramo

It's a very small print, so use a big screen.

### Lueder Schumacher

Very useful, thank you.

### Operator

Thank you. Our next question comes from the line of Vincent Ayrat from JP Morgan. Please go ahead.

### Vincent Ayrat

Yes, good morning. So, we already covered a couple of questions on the Uniper. I'll come back to it, regarding the Coal Commission, so it's obvious Uniper will negotiate that. However, the shareholders of Fortum would be interested in having your take on how it is engaged regarding compensation, you know, the soft side of the wording and what type of timeline do you see? Do you think there is an option to keep Datteln 4 open? That would be the first question.

The second question is related to Russia. So we have some bad debt; you said there was an operator there went into bankruptcy. I can pick up somewhere that margins on Loviisa[?] went down a little bit. It would be good to have a bit of colour there. When I look at next year, I still see, potentially, a positive effect from CSA tariff increases in Nyagan GRES unit two, which would have increased in the second half of this 2018 year. So, given this and FOREX, is it, how do you say, fair to assume still a slight growth on Russia for 2019 in your return at present? Thank you very much.

### Pekka Lundmark

I understand why the first question is very important for you but unfortunately I will not be able to go into much detail because this is clearly a Uniper matter. We, of course, are of the opinion that operators need to get properly compensated and we would hope that the government would then take these recommendations in whatever form they decide and put them into law as quickly as possible so that the operators would get clarity around the situation because the important decisions will need to be made. But then, when it comes to the time schedule, or money amounts, or names of individual assets, or anything like that, that is not for us to comment, so please be in touch with Uniper on these ones.

### Markus Rauramo

Then, regarding the Russian bad debt issues and the bankruptcy, one thing I could say there is that what is yet still to come is that this guaranteed supplier business will be auctioned in the market and this has happened many times earlier. So we will see what our final recovery, actually, from that is. Typically the payment for the bad debt has been between 40–60% and we have used this as our assumption also when taking the provision but that's subject to the regulator arranging an auction and then companies bidding for this guaranteed supplier.

When it comes to the outlook for 2019, again our CSA payments are dependent on the consumer price index, the government bond yields, the spot realisation and then our profile. And it is exactly correct that our profile still has a positive impact, meaning then a 15-year step-up impact. So everything else alike, yes, results should improve because of that.

### Vincent Ayrál

Thank you. I would like to just follow up on the Uniper situation, then, on the Coal Commission. Is it fair to assume that a prudent approach is to wait a bit to get more clarity on compensation there before doing anything on Uniper? Thank you.

### Pekka Lundmark

That is the right assumption and once again, you need to discuss that with Uniper. That is not for us to comment.

### Vincent Ayrál

Thank you.

### Markus Rauramo

But not to mix the two things, so the question had the other side.

### Pekka Lundmark

Sorry?

### Markus Rauramo

Vincent, if you would repeat your question, please? The question was that waiting for Coal Commission before doing anything on Uniper.

### Pekka Lundmark

Okay, yeah, sorry, then I misunderstood. Then these are not related, these things. Of course we are following very clearly and closely what – how the Coal Commission work and government actions proceed but there is no direct link, per se, between that and our other discussions with Uniper.

### Operator

Thank you. Our next question comes from the line of James Brand from Deutsche Bank. Please go ahead.

### James Brand

Hi, good morning. I have a question on an investment that was announced back in Q4 but you were highlighting again in a statement, which is to replace a fossil-based heat production unit with a biofuel unit in – I'm not going to pronounce this correctly but Kivenlahti.

### Pekka Lundmark

Kivenlahti.

### James Brand

Okay. And I'm just wondering if you could explain, a little bit more, the rationale for that. Is that something that's been driven by the fossil plant getting to the end of its life, or is it an agreement you've come to just to kind of replace the fossil plants there and is this something that should be driving a step up in profitability or is it more of a requirement to replace an ageing unit? And then also could we see this happening elsewhere for other facilities over the next few years?

### Pekka Lundmark

This investment is part of our partnership with the City of Espoo. Obviously a decision made on completely commercial grounds, part of the decarbonisation plan that we have for Kivenlahti in Espoo. This is a 58MW unit, heat-only boiler, so from a results point of view obviously it is not that significant but it is one important contributor in making the district heating network system here in Espoo renewable.

### James Brand

And do you – is it an expectation that you would be looking to make other district heating networks as well, or this is just Espoo that's moving a step ahead of other kind of cities?

### Pekka Lundmark

Absolutely district heating is part of our decarbonisation strategy in all places where we operate. I would like to mention Stockholm, which is one of the largest district heating networks in the world: 7TWh per year, if I'm not mistaken. That is already 90% renewable, which is really a remarkable achievement. When we talk about ways to decarbonise district heating, of course biomass is one thing but there are other things which we are already using in several places, including here in Espoo and one of the most promising ones is really to work together with large data centre operators. If you have a data centre of, say, just as a placeholder, 100MW, that data centre also produces 100MW of heat and it absolutely makes sense to connect that into an intelligent, directional district heating network that is able to utilise waste heat as much as possible. So I just want to say this: that there are – because the reason that there are multiple ways to decarbonise district heating, replacing coal with biomass is only one of them.

### James Brand

Okay, thanks.

### Operator

Thank you. Our next question comes from the line of Lars Paulsson from Bloomberg News. Please go ahead.

### Lars Paulsson

Hi, good morning, another question on Uniper, if I may? I'm wondering if you've had any conversations or discussions with Elliott, who increased their stake to close to 18% by the end of last year, about the future of Uniper and potentially helping you make any inroads in increasing your stake there?

### Pekka Lundmark

Of course we have noted Elliott's increasing stake but I have the same answer as before, that we do not comment any potential discussions with anyone so my answer to that question is, unfortunately, no comment.

### Lars Paulsson

Okay and have you got any more – have you thought any more about how long you are able to tolerate this sort of stalemate in discussions with Uniper? I mean let's say that there's no progress for another year in the talks, what's your situation will be – what will your situation be then?

### Pekka Lundmark

That's an entirely speculative question. We are in this for a long run. We are talking about long-term visions, which means that, if needed, we can be patient but of course we are not – as I said, not happy with the current situation, that we have made only little progress. But as I said in my opening remarks, there are discussions ongoing with both management board and with supervisory board and now we need to see where this will take us.

### Lars Paulsson

Thank you very much.

### Operator

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

### Måns Holmberg

Okay, thank you. I believe we still have one question from the chat, so, Ingela, go ahead.

### Ingela Ulfves

Thank you. We have a question from Tom Beckmann[?] asking that, 'Do you anticipate proposing any motions in the upcoming shareholder meeting/AGM of Uniper? If so, what would they be?' And separate to that question, 'Will you seek to propose any changes to the composition of the Uniper supervisory board in the next 12 months?'

### Pekka Lundmark

When it comes to Uniper's management and what will or will not happen at the shareholder's meeting, that is something that we discuss privately with Uniper. We do not comment that in public.

### Måns Holmberg

Okay, thank you very much Pekka, thank you Markus. If there are still any further questions, Rauno, Ingela and me will be available then. You can send us an email or give us a call and we will ask – answer them. Some of you I hope to see at our AGM on 26<sup>th</sup> March and the rest of you let's see you and hear you on the lines on 26<sup>th</sup> April for our Q1 results. Thank you.

### Pekka Lundmark

Thank you.

### Markus Rauramo

Thank you.