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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

Welcome to today's conference call regarding the Uniper transaction. Today we have our CEO, Pekka Lundmark; and the CFO, Markus Rauramo presenting. My name is Måns Holmberg, heading IR here at Fortum. I hope you all had the chance to download our presentation material from our investors pages and Pekka will give you a brief introduction to that, mainly following the presentation. And, after that, we will have a Q&A session and I would remind you that the maximum of two questions per person.

And just to start off, if you look at the presentation on slide number two, we have a standard disclaimer, so we please ask you to read that. But I would now hand over then Pekka for the presentation.

### Pekka Lundmark

Thank you very much, Måns, and dear investors, good afternoon. Ladies and gentlemen, thank you for joining. As you know, last week we announced that we were in advanced negotiations with E.ON regarding their 46.65% shareholding in Uniper. And today I'm pleased to announce that we have entered into a transaction agreement with E.ON regarding that stake. And in connection with this agreement and consistent with the requirements of general law, we intend to launch a voluntary public tender offer to all Uniper shareholders. And the offer document will be published following BaFin approval.

Before going in to details, let me stress once more that we are viewing this as an investment not as a takeover. It is an investment in a highly successful company that is very compatible with Fortum. We have committed to becoming a long-term strategic and constructive partner to Uniper as a large shareholder once the offer is completed.

Then if we move to slide 4, powerful combination. Though we've shared some information last week, I'd like to take a moment to highlight why this transaction will be beneficial to both companies and their stakeholders. This transaction first of all is fully aligned with Fortum's business strategy allowing us to invest in a great company with proven assets and operations that provide a solid platform for future growth. It allows us to invest in a diversified European generator with attractive hydro assets as well as efficient conventional assets that can respond to the increasing intermittent renewable production providing the flexibility needed to ensure supply.

We believe that this investment has numerous benefits for our shareholders and will contribute to our ability to deliver stable and sustainable dividends. As I said, this investment actually brings together the complementary assets and expertise needed to drive Europe's transition to cleaner and more secure energy, both security of supply, decarbonisation and affordability; all three taken into account.

Fortum focuses largely on carbon-free generation. Uniper provides security of supply from its diversified generation base and commodity expertise. We believe that our offer is an attractive opportunity for all Uniper shareholders to realise full and certain value, especially considering the long market speculation that has fuelled recent price gains. Above all, we are committed to serving as a supportive and reliable long-term shareholder to Uniper and will look forward to working closely together to deliver value to all of our stakeholders.

Then if we move to slide 5, which just basically summarises the transaction highlights which I'm sure you have already read in our release, just the key points. According to the agreement, E.ON has the right to tender its stake into the offer in early 2018 at the same total value as all other shareholders. If E.ON does not tender its shares, Fortum will have a right to sell to E.ON any Uniper shares acquired in connection with the offer. And Fortum will also receive a compensation payment of, at least, 20% of the total equity value of E.ON's stake in Uniper.

The total value of our offer is €22 per share, which includes Uniper's expected dividend of €0.69 per share for 2017. This price represents a 36% premium to the price at the end of May, prior to the market speculation and a potential transaction, and 120% premium to the initial trading price post spinoff. The offer has no minimum acceptance threshold and is subject to competition

and other regulatory approvals. The offer will be financed by existing cash resources and committed credit facilities underwritten by Barclays.

Slide 6, as noted earlier we do believe that the tender offer is a great opportunity for Uniper shareholders to capture the full value of their investment. This offer provides immediate and certain value to Uniper shareholders and fully captures the recent price gains, partly driven by speculation around a transaction.

Slide 7, this is about Fortum. I would like to provide some background to those of you who are not that familiar to us. We are a leading clean energy company that provides customers with electricity, heating and cooling as well as smart solutions. We are a strong, stable company with a long-term major shareholder in the Finnish state. We are driven by our commitment to clean energy. We are a forerunner in sustainability and have one of the lowest CO<sub>2</sub>-free generation profiles in the EU. Our commitment to innovation allows us to rapidly develop and offer our customer solutions that meet their changing needs and lifestyles. Our vision for a cleaner world reflects our ambition to drive the transformation towards low emissions energy system and optimal resource efficiency. We strive to accelerate this transformation by reshaping the energy system, improving the source efficiency and providing smart solutions. Everything that we do across our 9,000 employees is built upon this vision.

Slide 8, Uniper, why are we interested in Uniper? Why are they important to this energy transformation that we so want to accelerate? Let me start by summarising our perspective on Uniper. Uniper is highly successful, well-managed energy company engaged in power generation in Europe and Russia and global energy trading, headquartered in Dusseldorf, Germany. I will not go into details on where the assets are situated but slide 8 that you have in the deck gives you an overview of the assets.

What I would like to highlight there is the complementarity of the geographic positions. Fortum, obviously, is strong in the Nordic region. We are operating also in Russia, in the Baltic countries, in Poland and Uniper is very strong in central Europe. In the future, the energy systems of the Nordic region and the large European markets will be more and more integrated and that's why we are very excited about this opportunity that provides so much complementarity, including geographic complementarity and also portfolio complementarity between the two companies.

Slide number 9, Uniper as one of the largest European generators has a significant European footprint, a diversified generation portfolio, including extensive hydro assets and expertise and strong capabilities in construction operations and maintenance, all made possible by a highly experienced and dedicated employee base. In total, Uniper provides the security of supply needed to successfully undertake Europe's energy transition. Uniper has articulated concerns that our investment is not consistent with their strategy. I'm looking forward to discussing that point further with the Uniper management. We have thoroughly reviewed all statements regarding Uniper strategy made since the separation from E.ON and I can assure you that we are fully supportive of the company's strategy as articulated. This is why we are making this investment in the first place.

I would actually go a step further. Together, Uniper and Fortum have a larger, broader, more balanced and more attractive portfolio both geographically and in terms of generation technology. In addition, the companies have attractive complementarities in Sweden and Russia where we are both significant players. From my point of view, that creates significant opportunities for both companies to work together and create value for our respective shareholders. Importantly, there is nothing that Uniper has articulated in its strategy so far that cannot be achieved equally well or even better with Fortum as a supportive and significant shareholder.

Then slide 10, this is a side-by-side comparison of the businesses. You can clearly see the complementarity of the two companies. Uniper's businesses are complementary to those of Fortum, are close to home markets and are highly cash generative. Just to highlight a few points, Uniper's production portfolio in Sweden is mainly based on CO<sub>2</sub>-free hydro and nuclear power. It is therefore an excellent fit with Fortum, one of the cleanest power producers in Europe. As many of you know, Fortum is already a co-owner in two of the nuclear power plants in Sweden with Uniper and we have international recognised expertise in nuclear services and solutions for managing the full lifetime of the assets.

In Russia, Uniper's production fleet like that of Fortum's is largely based on highly efficient gas-fired generation. Both companies invested in new assets under the Russian Capacity Supply Agreement Programme and now receive guaranteed returns for part of their fleet. In Continental Europe, Uniper has the technologically advanced, flexible and highly cost-efficient generation portfolio, predominantly based on gas, coal and hydro. The capacity is mainly dispatchable and Fortum's only Continental European production activities are in Poland. So, on one hand, there is no overlap, and, on the other, this investment would diversify our

geographical market exposure. In addition, Uniper has extensive commodities trading activities that are complementary to the power generation business. The commodities business also includes sizeable gas storage and long-term contracts portfolios that play a key role in ensuring security of supply. Based on the complementary portfolios and competencies of the two companies, we expect significant opportunities for cooperation and value creation for both companies and our respective shareholders and stakeholders.

Slide 11, Europe is transitioning to a low-carbon energy system. The complementary businesses of Fortum and Uniper are well-suited for driving the European transition to a low carbon energy system. While transitioning to the energy system of the future, we need to focus on decarbonisation but without sacrificing security of supply and affordability for the customers. The transition will not happen overnight and will require investments in flexibility, storage and transmission capacity in order to accommodate for the growing amount of intermittent renewable power production. Now, we at Fortum have been making great progress in driving the transition, but we know we could do more with the right partner. And that's where our interest in Uniper lies.

Slide 12, just to recap. The first cornerstone in our strategy, and this slide is coming from our earlier published strategy that the first cornerstone in our strategy, is to drive productivity and industry transformation. And, as I have already described, this is exactly what this transaction is all about. Fortum is already focused on delivering solutions for sustainable cities. We can bring this expertise to bear in cooperation with Uniper, allowing Uniper to better leverage their strong platforms in Germany, the Netherlands and the UK in particular.

Uniper is a cash flow generating business. Through the dividends we expect to receive, as a major Uniper shareholder, we would strengthen our ability to sustain our own dividend policy and invest in our longer-term competitiveness, growing in wind and solar as well as building new consumer services and new energy ventures.

Slide 13, our investment in Uniper actually fulfils all the Fortum's previously announced disciplined capital redeployment criteria for the investments. This transaction is a major step in implementing our two-phased growth strategy. As we announced last year, it was at the Capital Market Day in 2016, the goal of phase one of our strategy is to maximise cash flow through balance sheet redeployment into businesses which we know, number one, have competencies in and which are closed to our home market. And number three, as you can see, the three criteria there, there needs to be existing cash flow as well. Some observers have questioned why we are investing in fossil fuel. So let me explain how this is consistent with and indeed an important part of delivering our vision for a cleaner world. Investing in a company that owns, among other things, gas and coal generation seems to contradict our declared strategy of driving low emission energy generation. As it happens, the opposite is true. Uniper's fleet is one of the most efficient in Europe and will continue to play a key role when it comes to security of supply. Uniper's portfolio is also particularly cash generative. And that cash generation allows Uniper management to deliver on its strategy and pay attractive dividends. Those dividends, which we will receive as shareholders, will support our investment in renewables and development of new energy technologies.

And once again, on that slide, you see both our criteria for phase one and then what we are planning in phase two. In terms of phase one, I would like to draw your attention to the second bullet point, which is growth in city solutions and consumer solutions. And here I would like to refer to the earlier this year announced restructuring of the ownership of Hafslund, which clearly enhances our position in city solutions in the Nordic region through the partnership with the City of Oslo and through the fact that we are now the largest consumer electricity retailer in the Nordic region. So, in a way, this investment into Uniper shares completes the strategic cycle that started with the divestment of the distribution networks and this creates for us and hopefully through a good cooperation with Uniper a platform to invest into phase two which will be the new energy system.

Slide number 14, I'd like to take a moment and highlight how this transaction will benefit Fortum shareholders. Uniper has a strong EBITDA, operating profit, net profit and dividend. Looking at the consensus estimate for Uniper for 2018, and I really want to emphasise here that we are only working based on publicly-available information, we have had no access to Uniper's books or any kind of insider information, so this is only based on publicly-available information, but we note that market consensus for EBITDA 2018 is approximately €1.5 billion and that would represent an enterprise value to EBITDA multiple of 6.2x. This investment will also contribute towards a stable and sustainable dividend for Fortum's shareholders and, of course, we have to then remember than when we look at the numbers and the final impact to Fortum shareholders, it will depend on the final outcome of the offer. But based on the consensus estimate for Uniper for 2018, the EPS contribution of owning the 46.65% stake would be an increase in the ballpark of €0.30 per Fortum share.

Slide number 15, next steps. There are a few steps to take before we can truly begin to work together with Uniper. We have today announced our intention to launch an offer and we will submit the offer document to the German Federal Financial Supervision Authority, BaFin, as soon as they are ready. Following BaFin's approval, we will publish the offer document and provide it on the following deal website which is [powerfulcombination.com](http://powerfulcombination.com). The acceptance period will commence on publication of the offer document and we anticipate that it will last ten weeks. Regulatory approvals and transaction closing are expected at the latest in mid-2018.

And finally, slide number 16, to summarise, we look forward to our future as a long-term shareholder and constructive partner for Uniper and are committed to working closely with Uniper management as we drive Europe's energy transition. We are two stable European companies working towards benefiting Europe. We have the utmost respect and high regard for Uniper's management and are fully supportive of their on-going strategy focus on further value creation. We also know that the dedication of the Uniper workforce is the foundation for the current and future success of Uniper's operations. Along these lines, we fully support all existing commitments Uniper has made towards their employees. I truly believe that Fortum and Uniper as well as our stakeholders will greatly benefit from this transaction. It's a win-win for all involved.

Now that we have the agreement with E.ON in place and have made the statutory statement about the planned launch of the offer, we are looking forward to engaging with management to explore how we can best bring our expertise and experience to the table and cooperate moving forward. Thank you.

### Måns Holmberg

Alright, operator, we will now be ready for questions and just a reminder that the maximum will be two questions per person, please.

## Q&A

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### Operator

Thank you. Ladies and gentlemen, we are now ready to take your questions. If you wish to ask a question, please press 01 on your telephone keypad. That's 01 on your telephone keypad if you wish to ask a question. And please stand by while register the first question. And the first question comes from the line Wanda Wierzbicka with Credit Suisse. Please go ahead. Your line is open.

### Wanda Wierzbicka

Good morning. Wanda Wierzbicka, Credit Suisse. Two questions from me. The first one is on the at least 20% break fee. Could you please give us more details? Is there any cap and who decides on the final percentage if E.ON doesn't sell you its stake in Uniper? And the second question: given your strong commitment towards a clean energy, are you still happy to invest in Uniper, the company with 10 gigawatts of coal capacity that emits 70 million ton of CO2 versus [inaudible] million tons of CO2 last year? And do you only see an opportunity to lower CO2 footprint by investing in renewables?

### Pekka Lundmark

Thank you. Thank you for those questions. The break fee is 20% and increasing. So it's at least 20% and increasing. And we will provide more details in the offer document. But it is at least 20%. That's what we are saying at this stage. And there is a certain mechanism that then the compensation fee increases when the share price increases, and all these details of how this mechanism works will be published in the offer document.

Then number two, obviously, we would not make this investment if we would not be comfortable with the portfolio that Uniper has. I think it's about 30% of their production. It's a round figure. But it also means that 70% is something else. And we all know that 40% of Germany's electricity production is coal-based today and at the same time when we are all committed to driving emissions to lower levels, it is a fact that coal will continue to play a role in the security of supply in Germany and in some other countries.

What we particularly like then in the portfolio is the fact that there is a lot of flexible assets, especially gas assets, in the portfolio. And the more solar and wind there will be in the system, the more flexibility will be needed. And especially in those areas where there is not enough hydro capacity available to take care of all the flexibility needs, many of the Uniper assets will be in a very important role in the entire energy system. So long answer to your question, yes, we are comfortable. We understand that energy transition needs both decarbonisation, security of supply and affordability at the same time.

### Wanda Wierzbicka

Thank you. A quick follow up. Do you know when do you plan to – so when can we expect the offer document to be published basically? When can we see the mechanism on the, at least, 20% break fee?

### Pekka Lundmark

It will be published as soon as BaFin has approved it. But we cannot, at the moment, speculate how long that will take. But, obviously, hopefully, not too long.

### Wanda Wierzbicka

Okay. Thank you very much.

### Operator

Thank you. And moving on to the next question, coming from the line of John Musk, RBC. Please go ahead. Your line is open.

### John Musk

Yeah, good morning everyone. Just wanted to come back to that break fee and just to get a view from you on the enforceability of that break fee. I'm no legal expert, but my understanding is that that is a materially higher break fee than would have been seen in other situations in Germany. So, are you confident that that can be enforced legally? Is it something that perhaps the other 53% of shareholders could launch some sort of appeal against? And then, secondly, on the offer price of 22, you have talked around the ability to work together in some of the synergies and overlap of the business. Does that offer price include your view on what might be achievable there? And if so, how are you able to factor that in if you're not sure you're necessarily going to get control of Uniper?

### Pekka Lundmark

Hey, look, this offer is the only offer there is. We are focusing on E.ON's stake at €22 per share. But, of course, this automatically leads to a mandatory offer to all shareholders. But we are focusing on the E.ON stake. But there is no other offer available. And the offer is €22 per share. We are, of course, happy to take all shares from shareholders that wish to lock in the significant value increase that there has been in the share during the past few months. We are, of course, welcoming those shares but our focus is on the E.ON stake.

Then when it comes to the break up mechanism, obviously, we would not have not launched or agreed something like this with E.ON unless we would be confident that it can also be defended.

### John Musk

Thank you.

### Operator

Thank you. And moving on to the line of Henry Steel with Odey. Please go ahead. Your line is open.

### Henry Steel

Hi, Pekka. You said that you're not looking for the control of Uniper. But, it's been reported in the report by CNBC and Reuters, a source who leaked the original detail of the deal earlier, they also confirmed that you're working with another party around the European fossil. Why are you working with the other party if you don't – if you won't have control? And who is that party? Is it RWE?

### **Pekka Lundmark**

That information is simply not correct. We are not working with anyone, any other party around this deal. I don't know where that information comes from but it is not correct.

### **Henry Steel**

Okay, thanks.

### **Operator**

Thank you. And moving on to the next in line, Peter Bisztyga with Bank of America Merrill Lynch. Please go ahead. Your line is open.

### **Peter Bisztyga**

Yeah, good morning. So two questions from me please. First is, you know, there are some scenarios here where your balance sheet comes under significant strain. So, for example, if you were to end up with 70% of Uniper through the tender offer, just saying hypothetically, the acquisition would cost you an extra €2 billion plus the ratings agencies would conceivably consolidate Uniper's debt into your debt matrix without giving you the full credit of Uniper's EBITDA. So net-debt to EBITDA could hit five or even six times. So I'm just wondering, you know, what contingencies have you put in place? What plans do you have in case such a scenario materialises? And then my second question is, I'm just wondering at what point you'd be required to consolidate Uniper into your accounts on the IFRS? Do you require a domination agreement in place or is there some other scenario? Thank you.

### **Markus Rauramo**

So Markus Rauramo here. I can take that question. So we are now focusing very clearly on the E.ON stake, the 47%. And let me walk through the key numbers there. If we acquire the stake at the offer that we have presented, our net debt EBITDA would go to about 3.5x, but that's then when we do not get any EBITDA credit. If we proportionately look at the EBITDA contribution, the number would be around 2.5x. So that's exactly in line with our stated financial targets. Even if we would take the harsher view, 3.5x, obviously, this investment plus our underlying business generate good cash flow. So we also look to delever quite quickly. And we have stated earlier that our financial target is to be at 2.5x leverage. It can be sometimes under. It can be over. The target is over time to get there. So now we are also looking to – you have an efficient balance sheet in place.

When it comes to the consolidation question, with this intended transaction, 47%, then this would be treated as an associated company. So we would have very good contribution from net income line as we have in our slides and strong cash flow contribution from the dividend. We have considered, of course, when launching this both the transaction with E.ON and the full transaction, we have looked at the various scenarios. So we think that in all scenarios, we are comfortable with the financing and we have taken this into account. But the focus is on the 47%.

### **Peter Bisztyga**

Okay. Thank you.

### **Operator**

Thank you. And moving on to the line of Sofia Savvantidou with Exane, please go ahead. Your line is open.

### **Sofia Savvantidou**

Yes, thank you for taking my questions. A couple for me as well. First of all on the details of the offer, I understand it is €22 in cash including an expected dividend of 0.69, but, as you say, you are only using consensus numbers on that. So I would want to be more clear if the dividend of Uniper ends up being €0.70 or €1 or 0.50, is that offer still being adjusted? So which number should we be looking at? The 22 or the 21.3 that you are mentioning. Which one is the one that you are working the maths with? And the second question was if you could give us your assumptions on power prices for Germany, on the outlook for the UK capacity market, as well as for the commissioning of the Datteln 4 and Beryozovskaya, obviously very important on evaluating Uniper. As you say, you've used consensus numbers but as far as I know, each one of us has different assumptions on this. So, implicitly, you must have taken a view on this. So I would be very interested to see how the marks of quickly deleveraging were based on this assumption. Thank you.

## Pekka Lundmark

Okay, the first question, the number you should focus on is 22 because that is the total value. And then how the mechanism will work in different dividend scenarios will be explained in more detail in the offer document. But substance is that you should focus on 22, okay?

Then, of course, we have not and will not publish our own power prices estimates or estimates on the expected outcomes on the different market mechanisms in different parts of Europe. The reason why we are using consensus figures in a public presentation like this is that that is the only thing that has been made available to us by the market and that's the information there is out there in public domain.

Of course, we have taken our own view and a very deep dive level on the various assets that there are in the company and their cash flow profiles from Europe for the coming years. There's about 300 power plants all together. And we have done a lot of work to get all that analysed. And that has then led and fed into the decision of launching this offer at €22 per share, which we believe is a price that hopefully would be attractive to both Uniper's and Fortum's shareholders, at least the fact that the largest shareholder is willing to sell at 22 to us is a strong sign that we are on the right level.

But we also believe that this is a very good move for Fortum's shareholders. One way to look at this is, as I said earlier through proportionate multiples, and we are looking at 6.2x. And when we started this strategic journey with the divestment of the distribution networks, we got for those networks a multiple of 18. We divested a business with an EBITDA €400 to €500 million and quite strong cash outflow because of capital expenditure on top of that.

So we got €9.3 billion for a business that generated €400-500 million EBITDA. Now, we are investing in a business that as a whole as a business is generating three times that amount at an evaluation that we believe is good to both our shareholders and Uniper's shareholders.

So, as a whole, I believe that this is, from a financial point of view, an attractive proposal for both companies.

## Sofia Savvantidou

Okay, thank you.

## Operator

Thank you. And moving on to the line Li Dunlop with JP Morgan. Please go ahead. Your line is open.

## Li Dunlop

Good morning gentlemen. Just two questions. The first one, in the offer itself, if there's a market decline and the shares drop significantly below 22 or basically you end up potentially receiving a lot more acceptances than the intention – than you originally desired. Do you have a material adverse change clause to protect you from such circumstances? And secondly, just technically, is there a two-week post-acceptance period after the initial ten-week offer period?

## Pekka Lundmark

All these details will be published in the offer document. So there's not anything more than we can say about that than we had in the release yesterday. So more details about this, including the offer document, will be made available in due course. But at this stage, we cannot provide any more information on your questions.

## Li Dunlop

Okay, no. Thank you very much.

## Operator

Thank you. And moving on to the line of Oliver Gleeson with Investec. Please go ahead. Your line is open.

### Oliver Gleeson

Hi there. Good morning. Thanks for taking my two quick questions. The first one is that do you expect to take up any board seats at Uniper? And if there are, how many? And do you expect there'll be any difficulties with the Uniper's other board members or management. And then second one is, you know, do you know where you're going to be filing the anti-trust filings; and specifically which country or with the European Commission? Thank you.

### Pekka Lundmark

Okay. Of course, as a significant shareholder and the clearly largest shareholder, we would expect that to be adequately reflected in board nominations as well. But this is, of course, something that we will not discuss in public. We will discuss this with the company.

We truly hope that we get into constructive dialogue with Uniper in the near future. I understand quite well that it was frustrating that they had to receive the information about the negotiations between E.ON and Fortum through media because of the leak that took place last week. We definitely had an intention to approach them again before this deal would be published, but, unfortunately, that was not possible. As we have said, we did approach them already last summer where we actually proposed a whole combination of the two businesses; the proposal which was then rejected.

So now, when we are becoming a significant shareholder, I really expect and hope that we get into a constructive dialogue with the company how our shareholding will be adequately, and in the correct way, reflected in obviously in the future board nominations, number one, and number two very importantly that how we arrange that relationship between the two companies as two operators in a field where there would be a lot of cooperation possibilities.

Then the other question about anti-trust, we will file in the European Union in Brussels, we will file in the United States and we will file in Russia.

### Oliver Gleeson

Great. Thank you very much.

### Operator

Thank you. And moving on to the line of Deepa Venkateswaran with Bernstein. Please go ahead. Your line is open.

### Deepa Venkateswaran

Thank you. I have two questions. One technical and another, a more strategic. The first one accounting under IFRS 10. Basically, if an investor has de facto power over another company, then they are required to consolidate it. And when EON – I mean, they're still own Uniper, they had to enter into specific deconsolidation agreement with Uniper in order to always consolidating them. So I was just wondering why the interpretation of IFRS 10 different for you versus E.ON and does that have anything to do with the fact that you're Finnish and they're German and for whatever reason the interpretation is different.

And the second question that I wanted to ask is you hinted that the conversation with Uniper management has not been constructive and you're hopeful of a more constructive dialogue. Presumably, if that would have happened, then you could have taken into account probably synergies, you could have taken more of a controlled premium into account. So would you then say that you could come back with a higher price should you have these constructive conversations with Uniper management? Thank you.

### Pekka Lundmark

Okay. Thank you. The IFRS question obviously is valid. But before we even know the outcome of the offer, it's too early to comment. But, obviously, we will follow IFRS in our reporting. Markus might want to add something to that. Still, this is the main point that we need to see the outcome of the offer first.

### Markus Rauramo

Yeah. And the reason why the previous arrangements, so E.ON was the previous owner and there were many ties to the company. This is our assumption that they had to make this agreement to clearly be consolidated. But for us, 47%, we would treat that as an associated company.

### **Pekka Lundmark**

Then the answer to the second question is very, very simple that – yes, we are looking forward to a constructive dialogue with Uniper’s management but – and not on price. This is the only offer there is.

### **Deepa Venkateswaran**

Thank you.

### **Operator**

Thank you. And moving on to the Jakob Magnussen with Danske Bank. Please go ahead. Your line is open.

### **Jakob Magnussen**

Thank you. I also got two question. First is on – first question is on the rating. S&P says that, one, that they could downgrade you by as much as two notches. I was just wondering – I suppose you’re going to have a dialogue with S&P now. If the final make up of this deal points to a two-notch deduction, would you look to seek some sort of remedy, either dividend cuts or asset disposals to limit the downgrade to only one notch? That’s my first question.

Second question is this facility that you got with Barclays. What is the tenure of this? Is this a short-term facility that will need to be refinanced at a later stage within a year or two or is it long-term facility? Thank you.

### **Pekka Lundmark**

Yes. So the – to the S&P comment, of course, they commented on the possible outcomes of the transaction. We think that our financial profile is very commensurate with our target to be a solid investment grade, and I think S&P’s comment confirms that, so we are comfortable with it and the financing arrangements.

When it comes to the facility, this would be a normal acquisition facility – transaction facility. There would probably be syndication and then eventual capital market takeout in the medium term.

### **Jakob Magnussen**

Okay. Thank you.

### **Operator**

Thank you very much. And moving to the line Ingo Becker with Kepler Cheuvreux. Please go ahead. Your line is open.

### **Ingo Becker**

Yes, thank you. Good morning. You keep stressing that you are eyeing the E.ON stake which, as I guess, we would all tend to conclude is the route towards the majority in Fortum – Uniper, I’m sorry. So on the basis of most probabilities, you are taking that route ending up with the majority, still stressing that you are looking at this as an investment. I’m wondering, are you interested in a partial ownership predominantly so in Uniper for that reason, which could or not imply you might sell on any excessive shares you receive in the process, or is this rather to be put on an asset kind of level as apparently alternative to not owning the majority of the shares you might look to not end up with the majority of the assets in Uniper that we’re looking at right now? I’m not sure you comment on this, but maybe you can shed some light here. Thanks.

### **Pekka Lundmark**

Hey, look, your question is highly speculative. We are now focusing on the E.ON stake and then we will see what the outcome of the offer is. And then after that, we will see where we are. So I am not in a position to go into more detail on this one at this stage.

### **Ingo Becker**

Okay, thanks.

## Operator

Thank you. And moving on to the line of James Brand with Deutsche Bank. Please go ahead. Your line is open.

## James Brand

Yes. Just to kind of follow-up on one of the earlier questions on leverage when you commented that you could 2.5 times net debt to EBITDA if you consolidated proportionately the assets or 3.5 times and then you have to make significant disposals. I was wondering whether it was possible now or you could, you know, hopefully, at some point in the future, whether you could give a bit more details on, perhaps, where within those bounds you might think about leverage. Because, obviously, you know, they're pretty different results in terms of one being happy with the level of leverage and one having to make potentially quite significant kind of deleveraging in future years or maybe disposals.

The second question is just on Oskarshamn 1 and 2. Obviously, you know, when E.ON was in control of the assets, SSU was made to close those nuclear units in Sweden. You're not necessarily going to be in position where you're going to have control Uniper perhaps to force a reversal of that decision. But do you have any thoughts on whether that would be something that you'd look to try and challenge and maybe reverse the view on that and keep those stations open, particularly given the tax changes and the increase in the power price improves the economics for Swedish nuclear? Thanks.

## Markus Rauramo

Yes. I would take the first question. So there was no reference to any disposals. What I said was that the strong cash flows from both companies would enable the deleveraging, our own cash flows and then the cash flows from dividends from Uniper.

## Pekka Lundmark

Then when it comes to Oskarshamn, of course, it's a fact that it is a power plant where the only owners are Uniper and Fortum. Units number 1 and 2 are shut down. And totally irrespective of anything in this deal, I see no possibilities that that could somehow be reversed. So whoever the owners are and whatever the structure is, everybody will be focusing on unit number 3, which is the largest and most – largest and youngest of the nuclear power plants in the Nordic region.

Of course, the outlook for that plant improved after the Swedish Energy Commission published their plan, which has now been put into law, where the nuclear capacity tax was 90% removed in this summer and then it will be completely removed from the beginning of next year. So that does make it more viable to continue to invest in nuclear in Sweden going forward. And I guess the most common assumption right now in Sweden is that the reactors would continue to run until the end of their economic lifetime.

But in a sense from the political side in Sweden, the message is that it will be up to the operators to decide. And this shareholding that we get in Uniper does not automatically lead to any changes in this. Of course, when I talk about cooperation possibilities and potential for a constructive dialogue, of course, it's not a big secret that that Oskarshamn would be one place where there would be a place for a constructive dialogue between the two companies.

## James Brand

Can I just follow-up on the first question? I mean the gist of the question is trying to ask is in one of the scenarios outlined is one where you're comfortable with leverage with the stake; you don't need to delever. You can just go on spending your organic cash flow on future investments, one is which where you need to significantly delever overtime either through organic cash flow regeneration or some other means. So, I mean, maybe you don't want to give more details on where you see the balance sheet at the moment. But I was looking for potentially some details on where within that kind of frame of kind of ways of looking at that that you'd see a position after the acquisition.

## Pekka Lundmark

Yeah. Hey, look, we have said that this 2.5 times is our long-term target. If we are below it, we would have a plan to increase it. If we are above it, we would have a plan to deleverage. And you can deleverage in so many different ways through strong cash flows, through divestments or through other means. But I'm not going to start this speculation as to what those matters could be, especially since when it comes to Uniper assets, we would become comfortable with the decisions that the management is making us part of their strategy. And then, of course, we need to remember that what is then directly under our control is the Fortum assets and all these different things can be used.

But these proposed transactions for the E.ON share does not put us into any kind of a position where we could cause disposals in the company. That is not what we are looking at.

### Markus Rauramo

Yeah. And if I follow-up on that, so our target is to implement our strategy so that we'll continue to have very good access to capital markets and that is supported by our current good rating and what it looks like if the rating agencies give us also on a continuous basis a good rating. And then to have an efficient balance sheet, and that's exactly what we are now achieving with this transaction. So this fulfils all of our targets and all of our stated objectives.

### James Brand

Thank you.

### Operator

Thank you. And moving on to the next in line, Nathalie Casali with Schrodgers. Please go ahead. Your line is open.

### Nathalie Casali

Hi. Good morning, Pekka. On the EBITDA acquisitions for 6.2 times that's being referred to, I think this seems to exclude about €4 billion of other long-term provisions on Uniper's balance sheet, which aren't included in its definition of net debt. And I think depending on the acceptance levels of the offer, it may well be that Fortum ends up having to consolidate these. So I just wanted to ask you how the board and the management team think about these significant additional long-term liabilities which Fortum might have to bear as a result to the transaction and especially in the light of, you know, the relatively short duration of some of Uniper's cash flow and the difficulty to predict them? Thank you.

### Pekka Lundmark

I will answer first and then Markus will go deeper into the off-balance sheet liabilities. Of course, it is very clear that we understand that the different assets have different durations. And that then goes back to the kind of the right level of multiple that you should pay for those assets. And we have done extensive modelling on the assets that we are now talking about when investing in Uniper and all those durations have been taken into account in our calculations. This is a general comment. And then, Markus, if you answer the first part of the question.

### Markus Rauramo

Yes, yes. So the answer to the question, does this include provisions, yes it does. So this is looking at the economic debt. And, again, this is based on the very good, actually, public information that there is due to that company has been IPO'd on the broker estimates. And here, obviously, this does assume that the proceeds from the Beryozovskaya divestment come in, which will, on its own part, reduce the financial debt. But the short answer is: yes it does include.

### Nathalie Casali

Yes. Sorry. I do appreciate it includes the economic net debt that Uniper publishes. But actually, there are another 4 billion of long-term liability provisions on Uniper's balance sheet that are not included in that economic net debt numbers. I'm fairly certain this 6.2 times doesn't reflect those. So that was really the question. How do you think about these long-term provisions?

### Markus Rauramo

Yes. Once again, the company has very good disclosure both on the financial debt items and then economic debt items. This also, we take an even harder look here than what you could in most cases do, and again, the company has very good disclosures. So there are extensive liabilities, extensive assets regarding nuclear, regarding closures, etc.

### Nathalie Casali

So you're comfortable if – I mean, there's a possibility that the whole thing might have to be consolidated. So that totally depends on how many people tendered shares. But what you're saying is you're comfortable with the whole of the liabilities and having to service these long-term provisions, this extra 4 billion of long-term provisions over time?

### Markus Rauramo

Our key focus is on the 47% now clearly. But as we have stated, of course, we are prepared then also to execute the full tendering of shares if so be, and then we do take into account the liabilities as they are reported and disclosed by the company.

### Nathalie Casali

Okay, thank you.

### Operator

Thank you very much. And moving on to the line of Karri Rinta with Handelsbanken. Please go ahead. Your line is open.

### Karri Rinta

Yes, thank you. Maybe first, a follow-up on the previous question. Last week, you mentioned that his offer is based on publicly disclosed information about Uniper, and it sounds like it still is. Will you, at any point, gain access to their books in order to be able to do an even more thorough due diligence in this process? And in the case that you would find something that you don't like, what would be the consequence if you would withdraw this offer?

Then the second question is related to the timing and you mentioned that you would get the offer results in January 2018. I'm just thinking about your board when they propose a dividend for 2017. Do you think that they will be in a position to propose a dividend when you report your earnings in the 2<sup>nd</sup> February or might we see a sort of a delay in the – in what kind of dividend they will propose for 2017? Thank you.

### Pekka Lundmark

Okay. The first question, due diligence, we have not had access to any books but we are operating entirely on publicly available information. And we have no reason to believe or we have no visibility to a situation where we would get access to the books. So we have are not basing this offer on the assumption that we would get any access.

And then I have to say that if there would be something in there that would be so material that that would lead us to change our mind in terms of this offer and if that something would not be in their disclosure at the moment, then I think that there would much bigger issues than just our offer. Because we are talking about public-listed companies that, exactly as us, has a duty to inform the market of all material information that affects share price.

Then when it comes to the timing, of course, our goal is, and I see – I don't see how that would change, is to publish then the board's dividend proposal in connection with the Q4 results. And it will be based on the information that is, at that time, available. And, most likely, we will know quite a lot of the outcome of this situation already at that time. So I would hope that the board would be able to make a well-informed decision at that time.

Operator, we still could take one more question.

### Operator

Yes. We have a question from the line of José López with Millennium. Please go ahead. Your line is open.

### José López

Hello. Thank you for taking my question. Listen, I'm still struggling to understand the rationale for the transaction. Just as a reminder, flexibility is increasingly being addressed by batteries on demand side response. So, specifically, slide 13, phase 1 and phase 2, investing in thermal to use that cash flow to build renewable is a bit like building a fast food chain or buying a fast food chain to use the cash flow to build a – to buy healthy eating restaurants. If you believe renewables are an attractive investments, why don't you just invest in them directly?

Pre-transaction, your clean generator with 5 billion in cash, more is levered. But you will have spent on a diversified portfolio for renewable projects. If this goes ahead, you will become a complex generator geared to complex geopolitical dynamics, such as the ones in Russia, and with a higher carbon footprint of short duration. What's the strategy, because I really didn't get slide 13 of buying thermal to build renewable? Thank you.

## Pekka Lundmark

As I was trying to explain, the energy transition needs, at the same time, security of supply and decarbonisation. And when we explained this phase 1 and phase 2 about a year ago, we quite a lot emphasised that we want to invest in assets that are within our existing core competencies, i.e. in generation or in power and heat or in consumer services. We do not have a history as a large solar and wind developer even though we have now recently started some first small investments into this. It comes from a wider system thinking that what type of energy system will be needed in different phases of the transition in the Nordics and in the European markets. And there, we see that they're all – that the combined assets of the two companies and the assets of the companies even though we are just investing in one company, they support each other very well.

When it comes to solar and wind, we are in our strategy with the bigger investments, we are waiting for a phase where this will be exposed to market forces. If you were, today, investing this much money into solar and wind portfolios, first of all, it would have been almost impossible to do it very close to home markets, and, number two, they would all be regulated asset bases that would be earning – fearing tariffs, so different types of support mechanisms, which means that the potential returns there are very low. And that's why, for us, since strategically earlier we decided to divest the regulated asset base, i.e. distribution networks, it would not feel strategically right to put that money into another regulated asset base there where the income would be based on different types of subsidies or fit ins.

We are waiting for the next phase in solar and wind where we believe that utility competencies and competencies to operate on the market sell, trade, take care of balancing of the system will be extremely important. And that's what we mean with our phase 2 solar and wind investments.

## Måns Holmberg

All right. Thank you very much everybody for the active participation. And just as a reminder, if you have any questions which we did not get to answer today, you can always contact me after this call. But thank you very much and have a good afternoon.

## Operator

Ladies and gentlemen, this concludes today's conference call. Thank you very much for attending. You may now disconnect your lines.