

Fortum Media Conference Call

Presentation

Operator

Good morning ladies and gentlemen. Thank you for standing by and welcome to the media conference call. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question you will need to press star and one on your telephone and wait for your name to be announced. I must advise you the conference is being recorded today, Tuesday 7 November 2017. I would now like to hand the conference over to your speaker today, Pekka Lundmark. Please go ahead.

Pekka Lundmark

Fortum President and CEO

Thank you Operator and good morning and thank you for joining our call at such short notice. I will begin with a brief statement and then would be happy to answer any questions you may have.

So this morning we have officially launched its offer for Uniper's outstanding shares and the Uniper shareholders will have the opportunity to tender their shares at any time during the acceptance period which will run from today until January 16 2018.

We believe that the offer is a great opportunity for shareholders to lock in the significant share price gains over the past months which were in part driven by takeover speculation in the market.

As we stated in September, E.ON, which is currently Uniper's largest shareholder, has the right to tender its 46.65% stake into our offer in early 2018. If E.ON does not tender its Uniper shares by 11 January 2018, Fortum will have the right to sell to E.ON any Uniper shares it has acquired from the market by the same date as well as any shares acquired through the offer.

In addition, Fortum would be entitled to a compensation fee from E.ON. The compensation fee includes a base fee of approximately EUR750 million, as well as a variable fee, depending on the Uniper share price development in January 2018. The

total compensation fee could be a maximum of approximately EUR1.5 billion. And you will find all the details about the mechanism in the offer document.

As we have seen, the share price is currently above the offer price. I do not want to speculate on why this is the case; however, there are a few points that I would like to raise. First, we believe that our total offer value represents a very attractive consideration for Uniper's shares. Second, we will not raise the offer price. There has been speculation that this is an option for us, so let me be clear. We have no plans nor any reason to raise the offer. Third, we see a competing bid as highly unlikely. And finally, as we have stated since September, we are focused on acquiring E.ON's stake in Uniper. This is why our offer does not have a minimum acceptance threshold.

We have stated before that we are happy to receive any shares in addition to E.ON's stake, but let me be absolutely clear here: we have not projected any outcome of the offer. Anyone speculating on the outcome, including that we will receive 75%, should reconsider their position.

I would also like to comment on speculation about our plans for Uniper's portfolio and its employees. I can only reiterate what we have said before: as an investor, even a very significant investor, we are in no position to sell any parts of Uniper's portfolio. Any decisions of that type are the responsibility of Uniper management.

Furthermore, as an investor, we do not decide on redundancies, headquarter location or any other arrangements between Uniper and its employees. These decisions are made only by Uniper.

Nonetheless, we have made commitments to provide Uniper employees with certainty in regards to their jobs and their roles at Uniper. These commitments are from our point of view reasonable and in line with the strategy of value creation. However, we cannot formalise any commitments until Uniper's management engages with us. We have stressed from the beginning that we want to sit down with Uniper and remain ready and willing to do so.

In closing, if E.ON decides to tender their shares, we will be the largest shareholder in Uniper. We are absolutely prepared to live up to our responsibility to act as a constructive partner to this great company. At the same time, we are looking forward to Uniper management assuming their responsibility to make this relationship work in the best interests of the company, its shareholders and employees.

A lot has been said in recent weeks. However, it is now time for Fortum and Uniper to sit down and discuss the future. Thank you and Operator, now I would be ready to take any questions.

Q&A Session

Operator

Thank you. If you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. If you wish to cancel the request, please

press the hash key. Star and one on your telephone to ask a question. Your first question comes from the line of Kati Pohjanpalo of Bloomberg. Please ask your question.

Kati Pohjanpalo (Bloomberg)

Good morning. I wanted to ask you, given Uniper management's campaign against the deal, what chances do you have of fostering a constructive relationship and being able to work together in the future?

And a quick second question. Uniper's CEO has said that he won't engage in discussions with you before the document has been approved by BaFin, and now that it has, are you waiting for him to call you or are you picking up the phone today? Thank you.

Pekka Lundmark

Thank you for the question. First of all, as I have commented earlier, we have been a little bit confused about the campaign and certain statements that have been made which we partially believe are based on some misunderstandings that we would like to definitely clear up with Uniper's management. They have said several times that they do not want to engage before they see the offer document. I did send a brief message to Mr Schafer this morning that now the offer document is out and we are willing to start discussions at any time. But, of course, we would hope that he would now be - he and his management team would now be ready to engage with us because it would definitely be in the best interests of all parties to have a constructive dialogue about the future and we would be certainly ready to start that at any time.

Operator

Thank you. Your next question comes from the line of Eyk Henning of Bloomberg News. Please ask your question.

Eyk Henning (Bloomberg)

Good morning. It seems like we are with Bloombergers this morning here. I was just going to ask again about the higher rates. This is higher than initially thought I would think. So, what's behind it? Maybe you can again elaborate on that. I didn't quite get it.

Pekka Lundmark

This is actually in line with what we have said earlier. We talked about the base fee earlier and then we said that under certain circumstances it will be higher and the detailed mechanism is explained in the offer document. But once again there is a base fee of EUR750 million and then there is a mechanism through which the fee increases in case the Uniper share price in January 2018 will be higher than the offer price of EUR22, and the maximum compensation fee could be as high as EUR1.5 billion.

Eyk Henning (Bloomberg)

Alright. And is this call to keep hedge funds away, like playing arbitrage games here?

Pekka Lundmark

Well I do not want to speculate on who we want to keep away or how the market would take this. We believe that this gives us a certain level of deal certainty but still it will be E.ON's decision whether or not to tender the shares to us in January, and we of course have wanted to publish all the details that are relevant when they are making their decision.

Eyk Henning (Bloomberg)

Alright. Thank you.

Operator

Thank you. And your last question comes from the line of Christoph Ruhkamp of Borsen Zeitung. Please ask your question.

Christoph Ruhkamp (Borsen Zeitung)

Good morning. If you are looking one or two years in the future, would you like to change the board of Uniper?

Pekka Lundmark

Look, we are just focusing on the E.ON stake of 47% at the moment with our offer, and we would of course expect that we would be adequately represented in the supervisory board, representation that would adequately correspond to our stake, which then of course depends on what shareholders - the other shareholders in addition to E.ON will decide to do. So it's too early to speculate what that would mean in practice, but of course we would expect to have influence on the supervisory board that would be consistent with whatever our shareholding will be.

Christoph Ruhkamp (Borsen Zeitung)

And would you like to change the CEO and management?

Pekka Lundmark

This is entirely a question that the supervisory board will need to make. We have no intention to cause any such changes with our 47% stake.

Christoph Ruhkamp (Borsen Zeitung)

Thanks.

Operator

Thank you. And you have one more question and it's from the line of Christoph Steitz from Reuters. Please ask your question.

Christoph Steitz (Reuters)

Good morning from Frankfurt. I have a question on antitrust. Do you expect any problems there? I saw that the Russian antitrust authority has at least voiced some concern about the takeover of Unipro, which would be part of the bid for Uniper. So I'm just trying to get a sense of how you think about any of that. Thank you.

Pekka Lundmark

We have already received antitrust approval from the United States. We are currently preparing in cooperation with the authorities in Brussels an EU antitrust filing, and we have already made our antitrust filing with the Federal Antimonopoly Service in Russia. We expect a pretty normal conversation with the authorities in Russia. In such conversations you would typically discuss with the authorities what is the relevant market definition, and as part of that discussion they would look at different alternatives.

We do not expect any outcomes that we would not be able to live with but this is of course something that we do not want to pre-empt. It's very important that we want to give the authorities all support when they do their work. But once again, we expect an outcome that we can live with.

Christoph Steitz (Reuters)

Okay.

Operator

Thank you. Just as a reminder, if you do wish to ask a question it's star and one. You have a question from Christian Grimm of Dow Jones. Please ask your question.

Christian Grimm (Dow Jones)

Yes, good morning from Berlin. Mr Lundmark, I've got a question. If you are aware of the talks here in Berlin taking place to form a new Government in Germany, one outcome might be that you buy assets which will be wiped out in some years because of waving goodbye to coal-fired plants. What is your attitude towards the coalition talks here in Berlin?

Pekka Lundmark

First of all, before I comment that specific question let me reiterate that we have always been committed to reducing emissions, and we feel that because of climate change and global warming it is absolutely essential that we find ways to speed up the production of emissions. This is something that we have shown in our history through the assets on the portfolio that we would have, and regardless of what kind of portfolios we would have, in the future we would be committed to continue that work.

Now what will happen to coal in different countries will vary based on the realities that those countries are facing. We all know that Germany is producing 40% of its electricity with coal at the moment, and of course this is something that is an important topic in the ongoing Government relations, how Germany will meet its emission reduction targets.

We would be happy to support any outcome that there will be in such negotiations, and one of the strengths, as we see, in the Uniper portfolio, and of course also in the Fortum portfolio but talking specifically of the Uniper portfolio, is that it is actually quite robust in different situations. Thirty per cent of the production capacity is coal but 50% is flexible gas and 20% is then CO2 free, emission free technologies.

So we believe that this portfolio will be very competitive in all possible outcomes of potential coal phasing out of time schedule. So we would be ready to support any outcome that there would be in the negotiations.

Christian Grimm (Dow Jones)

So you are ready to buy coal-fired plants and then shut them down in let's say five years?

Pekka Lundmark

We are looking at the Uniper portfolio as a whole and once again many of these decisions and time schedules could be politically driven. And should there be a politically driven process in the new Government programme that would have a certain time schedule regarding coal, we would be happy to support that. But of course - so the answer to your question is yes, we are willing to invest in this portfolio regardless of the different outcomes of coal phasing out schedule that there might be. Because in those scenarios where there would be a faster than currently thought phase-out of coal or lignite, then in the Uniper portfolio the importance of the other assets, especially flexible gas and hydro, would increase in relative importance. And this is what I mean when I say that this portfolio is actually quite robust in different scenarios.

Christian Grimm (Dow Jones)

Thank you.

Operator

Thank you. There are no further questions on the line sir.

Pekka Lundmark

Okay. Then I guess we say thank you from here. Thank you for participating everybody.

Operator

Thank you. That does conclude our conference for today. Thank you all for participating. You may all disconnect.

[End]