Telephone Conference for Media Representatives

Uniper's Business Performance in Q1 2018

Düsseldorf, May 8, 2018

Statement by:

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[Speaker: Klaus Schäfer]

Thank you, Astrid. I too would like to welcome you to today's telephone conference on our results for the first three months of 2018.

Some of you may be surprised that I've joined Christopher Delbrück for today's telephone conference. After all, it isn't how we usually communicate our first-quarter results.

But you may also have come to know me as someone who is passionate about discussing important new developments at Uniper with you personally. That's precisely why I'm here today with my colleague Christopher Delbrück, who, as usual, will present our key financials in detail in a few moments.

I'd like to start by saying a few words about something that could definitely be described as a hot topic of the last few quarters: Fortum's public takeover offer for Uniper.

As you know, the acceptance period for the takeover offer expired in early February 2018. Besides E.ON, only 0.47 percent of Uniper shareholders tendered their shares at a price of €21.31. No one was really surprised that the proportion was so small, since our stock price was significantly above the offer price for the entire acceptance period. Since then, I have also noted from numerous discussions with many investors that the capital market continues to believe in our strategy presented in December and in our long-term competitiveness.

Important approvals must be obtained for the offer to be completed: the approval of the Russian Government Commission on Monitoring Foreign Investment and the merger-control approvals of Russia and the European Union. On April 28, 2018, we learned from news agency reports and a Fortum stock exchange release that the Russian Government Commission on Monitoring Foreign Investment had agreed to issue its approval. With the proviso, however, that Fortum can only acquire up to 50 percent of the shares and voting rights in Uniper.

What does this mean for us at Uniper and for the entire takeover offer? It was conceivable that the Russian Federal Antimonopoly Service could've prohibited the entire transaction due to the legal situation. And no one in Finland would've had reason to complain about that. But to me the decision is almost Salomonic: Fortum obtains the approval with a proviso that doesn't adversely affect it. After all, Fortum itself has emphasized repeatedly in

the past ten months - most recently in the stock exchange release I just mentioned - that it would be satisfied with a 47-percent stake in Uniper. And with Fortum being limited to less than 50 percent of our shares, we at Uniper obtain clarity that we will have a major shareholder but not a majority shareholder. It's an outcome that both Fortum and Uniper can live with. Let me conclude by briefly explaining the issue of strategic investments. The Strategic Investment Law has existed for a long time. Under the law, the takeover of business operations in Russia is subject to particular scrutiny when the acquirer is a state-owned foreign company. This is the case with Fortum, whose majority shareholder is the Finnish state. So, it was not at all surprising that Russian officials would take a very close look at this transaction. Fortum can also hardly be surprised by the fact that our operations in Russia make Unipro, our subsidiary there, "strategic" within the meaning of the law.

We actively raised the issue of strategic investments with Fortum. And we did so already back in early October when Fortum had announced but not yet formally issued its offer. So, our behavior toward our potentially largest shareholder was open and transparent, just as it was in the proceedings with the Russian authorities – all contacts were made within the framework of what was legally permissible or in some cases even legally required. In view of the situation after the decision in Russia, which is tolerable for both sides, I'm not quite seeing why Fortum appears to be somewhat annoyed.

But let's look ahead instead. If everything goes according to Fortum's plan, the transaction can be concluded this summer. This would give us a major shareholder who seems to believe in our company. After the expected completion of the transaction, it will be important to reach an agreement with Fortum in the interests of the company, its employees and shareholders. The goal here will be to define a strong relationship and maintain the strategic and financial freedom that is important to Uniper. Pekka Lundmark's stated goal is to create value for his shareholders – as well as from the cooperation of Fortum and Uniper. My board colleagues and I are also committed every day to continuing Uniper's success. So we're in complete agreement on this point. And ultimately this is what will create enduring added value - for both companies. It's also a good basis for our further discussions. In this respect, I'm confident that we will be able to reach an agreement.

Fortum's takeover offer, however, has been accompanied by the arrival of activist hedge funds. Of course, they too are Uniper investors. And we treat them accordingly. However, I

cannot hide the fact that these new investors have complicated the overall situation quite a bit, since not all Uniper investors seem to have the same interests. Acting appropriately in this delicate situation and responding to new developments is indeed challenging.

To give you an example: Last Friday, we received from a single investor a "request to supplement the agenda" for our upcoming shareholders' meeting on June 6, 2018. The investor proposes to resolve on the appointment of a special auditor for the purpose of identifying possible breaches of duty and violations of the law by members of the management board of Uniper SE as well as identifying and determining potential claims for damages of Uniper SE against members of the management board. In this context, in particular all actions and measures taken by the management board of Uniper SE since September 20, 2017 in connection with Fortum's takeover offer shall be investigated.

I won't say anything more about the specifics of the proposal. But I would like to take this opportunity to briefly give you our view of this request: As the Management Board of Uniper, we are committed to safeguarding and protecting the interests of our shareholders. And, if possible, the interests of all of them. We do this each and every day. And that is why I am very confident that this proposal will not obtain a majority at the AGM.

A proposal aimed at calling our conduct into doubt and questioning its lawfulness must be judged in the light of the interests of all our shareholders. And I believe that for the majority of our shareholders this interest is clear:

First, E.ON, which for now is still our major shareholder: with the decision by the Russian Government Commission, E.ON has likely achieved its goal of selling its Uniper stake and will even benefit from the increase in the offer price from the originally agreed-on €19 to €21.31 per share. That's an increase of just under €500 million. E.ON should actually be quite satisfied with the work of the Uniper management. I don't see any motivation for E.ON to vote in favor of the proposal for a special audit.

Second, Fortum: As you know, Fortum has repeatedly pointed out that E.ON's stake is sufficient to achieve Fortum's goal of becoming Uniper's largest and thus strategic investor. This goal seems to be nearly achieved as well. Therefore, I also see no reason for Fortum to vote in favour of the proposal. If Fortum wants to create added value for the company

and its shareholders, it's now essential to look forward rather than back. Irrespective thereof, I'm confident that Fortum will not support the investor's proposal: when asked about this directly at the Handelsblatt conference in Berlin on January 23 of this year, Pekka Lundmark said: "We certainly don't need a deal with the activists." What could have caused this opinion to change? And for what purpose?

Third, Uniper's other free float investors: Except for this one investor, nobody can really have an interest in a special audit. The majority of our investors have been interested in, committed to and have benefited from this company, whether they joined us sometime during the past two years or have been with us from the beginning. For them, it will be more important to set the course for the future than to support a vote of no confidence on the Uniper management.

I'd like to leave it at that and return to our business.

Exactly two months ago, I spoke to many of you personally at our annual-results press conference in Düsseldorf's Media Harbor. In the short time since March 8, a lot has changed regarding a number of the issues I addressed. This applies to global energy markets, several European energy-policy issues, and our most important big projects.

Before I talk about where these projects currently stand, let's take a look at Europe's power and gas markets. In our view, things have clearly been moving in the right direction since the start of the year. Prices indicate that the risk of supply shortages and the resulting uncertainty for supply security is increasing. Wholesale electricity prices in Northern Europe and Germany were 40 percent higher than in the first quarter of last year, in particular because of the significant increase in the price of carbon allowances. Carbon prices have almost tripled in the past year, reaching highs of up to €14. The reform of the EU Emissions Trading Scheme, which was adopted in November 2017 after a lengthy debate, is obviously having an impact. Uniper welcomes this development. In our view, rising carbon prices are the most effective incentive for displacing old, emission-intensive power plants and replacing them with low-emission technologies. The timing is favorable: European governments are still in the early stages of drafting legislation to phase out coal. At the same time, however, it's becoming increasingly clear that the increasing shortages on Western and Northern European electricity markets are making the calls for supply security more urgent.

Supply security is an important issue for gas as well. It's impossible overemphasize the indispensable role played by gas storage facilities in Germany, as this past winter once again reminded us. Although Europe experienced average winter temperatures, the volatility of global gas prices increased markedly. Just a few weeks of sharply colder weather in February and March 2018 were enough to reduce inventories at gas storage facilities to new record lows. At the end of March 2018, inventories in Europe were just under 19 percent, despite solid inventory levels at the beginning of winter.[1] When temperatures in Germany dropped to as low as minus 30 degrees Celsius in late February, it was the country's gas storage facilities that reliably met the high demand. During this period, storage facilities supplied about forty percent of Germany's gas on average and more than 50 percent at times of peak demand. By the end of winter, German storage facilities were only about 15 percent full. This situation, which is no doubt due in part to the existing gas market design, is not without risks for supply security. Today I'm not going to dwell on our position on this important issue or the policies we advocate. I'll just say this: if the use of gas storage facilities is left to the market alone, there's a danger that toward the end of winter inventory levels will no longer be sufficient to meet a temperature-driven spike in demand. In this difficult market situation, Uniper has focused on maintaining supply security and procuring the necessary amount of gas.

Europe's gas market still seems to be pretty calm. The summer-winter spreads, the key margins for our storage business, hardly moved during the cold spell. This applies to the near-term future as well. So far, the margins only begin to widen from 2020 onward. That's when flexible capacity will increasingly be withdrawn from the market. For example, Europe's gas production is declining. The Netherlands has already been forced to reduce production at Groningen, a large gas field, because it caused earthquakes in the region. This happened as recently as this past January. Going forward, the Netherlands will therefore be less able to respond to volatile demand spikes. Imports were already unable to keep pace with high gas demand at the end of February, a situation that's likely to worsen further. To ensure supply security in the future, we simply have to adapt our gas infrastructure to changing market conditions and to further diversify our procurement portfolio. This brings me to **Nord Stream 2**, which is being financed by us and other energy

[1]Source: European transparency platform, AGSI https://agsi.gie.eu/#/

companies. The project made further operating progress in the first quarter of 2018 and received a number of important construction permits, such as in Germany and Finland. The approvals process in the other countries along the pathway (Russia, Sweden, and Denmark) is on schedule. We assume that further construction permits will be issued soon. Although Nord Stream 2 continues to encounter political headwind, primarily from the European Union and the United States, we stand by our contractual obligations and remain convinced that this project makes strategic and financial sense.

Let's stay for a moment roughly in the same geographic region as the Nord Stream 2 pipeline. The repairs to **Berezovskaya 3** power station in Russia remain on schedule and on budget. The main parameters are unchanged: the power station is scheduled to return to service in the third quarter of 2019. The repair budget is unchanged at RUB 36 billion. Of this figure, RUB 17 billion had been spent on repairs as of early April 2018.

I'll return now to Germany and **Datteln 4**, our new hard-coal-fired power plant. We now have new information regarding the repair of the damage to the boiler in conjunction with T-24 steel. We announced this information last night in an ad-hoc release. But I'd like to explain the background and the facts to you in greater detail.

Since our annual-results press conference, we've carefully assessed the extent of the damage to the boiler. We're talking about 35,000 welds in the boiler pressure pipes that could possibly be damaged. The damage assessment has been an unbelievably demanding and time-consuming process. We've studied a variety of scenarios for repairing the damage as conclusively as possible and for ruling out further damage in the future. In the end, there are two main scenarios. The first scenario is to repair the boiler. This would require us to use special inspection methods to identify all damaged weld seams. This process has not yet been completed. It wouldn't be possible, however, simply to reweld a weld seam. Instead, the piece of pipe around each damaged weld seam would have to be cut out and replaced. In other words, each defective seam would result in two new seams. Once welded, they would have to be x-rayed, then heat-treated, and finally x-rayed again to prevent damage due to heat treatment. A truly Sisyphean task. And even more because at this point we're still unable to say definitively how many weld seams are actually damaged. You can imagine how long this could take for the thousands of weld seams that could be affected. The second scenario, which from today's perspective we believe to make more

sense, is to replace the entire boiler walls. Consequently, we intend to install new walls constructed of a different type steel –T-12 – which has a proven track record going back decades. Obviously, replacing the boiler walls will also take time. This will further delay the plant's planned commissioning, which is now expected to take place presumably in summer 2020.This delay made it necessary for Uniper to record an impairment charge on Datteln 4 power plant of around €270 million.

Of course, one could ask why T-24 steel was installed in Datteln in the first place. The answer is that hindsight is always 20:20. The decision made ten years ago to use T-24 reflected the determination to opt for what appeared to be the better material and to inaugurate a new era in super-critical boilers. At the time, no one anticipated that a steel that outperformed T-12 in the laboratory would prove to be extremely problematic in practice. These problems only became apparent over time in boilers operated by competitors that had also opted for T-24. But by then the boiler made of T-24 steel had already been installed in Datteln. The reason that these problems didn't emerge until now, shortly before plant's planned entry into service, is that there was a court-imposed construction halt from 2010 to 2016, when work at Datteln recommenced under the Uniper flag. Of course, we tested 100 percent of the weld seams prior to the initial commissioning phase. But, unfortunately, the T-24 damage pattern – experts call it "stress corrosion cracking" – only occurs as a result of the interaction of a very specific temperature, pressure, and water chemistry inside the boiler pipes. In other words, it only happens when the boiler is commissioned.

All in all, it's a situation we're extremely displeased with. But I'd like to again state clearly that meticulous care and quality far outweigh speed in an important project like this one. We owe this to our customers and to the many colleagues at Datteln 4 whose hard work and dedication is moving the project forward and whose safety is our top priority.

And the news isn't all bad. One positive development for Uniper since our annual-results press conference on March 8 is the ruling issued by the Essen district court on the long-term power supply contracts we concluded with RWE for Datteln 4. On March 12 the court upheld Uniper's legal view that RWE has no right to cancel the contracts or to seek adjustments to the contractually stipulated prices.

The additional delay in Datteln's entry into service will have no impact on our medium-term dividend plans, although the buffer that we planned for this now isn't as big. As for our forecast for the 2018 financial year, Christopher Delbrück will now provide you with more details.

[Speaker: Christopher Delbrück]

Thanks, Klaus. I too would like to welcome you to today's telephone conference. I'll provide you with an overview of the development of our key financial figures in the first quarter of 2018 and conclude with a few words about our forecast for full-year 2018.

At first glance, our operating results for the first quarter may not elicit too much enthusiasm. After all, our adjusted EBIT declined by about one third year on year. But what's important is that this performance largely reflects our planning for the 2018 financial year. It also must be considered in light of the late arrival of cold weather in the winter quarter. A number of positive seasonal effects that we typically see in our first-quarter earnings and cash-flow performance will therefore emerge as the year moves forward. Nevertheless, in the first quarter we were still able to lay a good foundation for achieving our targets for the year. One important reason for this is that our adjusted funds from operations, which we use to assess the potential dividend payout to our shareholders, increased by more than 27 percent year on year. This is attributable in part to a reduction in our utilization of provisions and positive tax effects. For now, I can reveal that today we are reaffirming our forecast for full-year 2018. But I'll say more about that in a moment.

Uniper's balance sheet remains very good and stable. This was affirmed in late April by an independent observer: Standard & Poor's rating agency raised our rating to BBB with a stable outlook. After successfully reducing our debt and optimizing our cash and cost situation, we've therefore now achieved our rating target. We worked hard for this since the first day we became an independent company. So we're very pleased that we can now reap the fruits of our labors.

I'd now like to explain which factors affected our earnings and cash flow performance in the first three months of 2018. Our first-quarter **Adjusted EBIT** was €350 million, about €160 million below the prior-year figure. The main reason for the decline was the absence of earnings streams from the stake in Yuzhno-Russkoye gas field, which we sold last year, and from power plant units we decommissioned in the summer of 2017: Maasvlakte 1 and 2

in the Netherlands and Oskarshamn 1 in Sweden. We also recorded adverse currency-translation effects with both the Russian ruble and the Swedish krona. Together, these factors alone accounted for €90 million of the decline.

Other negative factors included lower achieved prices for hydro and nuclear power. This is because we previously hedged the prices for a portion of this output at lower price levels. Our adjusted EBIT was also reduced by negative price and volume effects at our fossil-fueled generation portfolio, which in the prior-year quarter had benefited to a substantial degree from power-plant outages in France, which of course didn't recur the first quarter of this year.

Last but not least, earnings at our gas business were lower than might be suspected from the cold temperatures at the end of the first quarter. In particular, earnings on gas optimization activities were significantly below the prior-year quarter, primarily because of three factors:

- First, earnings in the first quarter of 2017 still benefited from the successful negotiations in 2016 to adjust the terms of our long-term gas procurement contracts.
- Second, despite at times extreme price and temperature spikes, we were unable to monetize in full the options of our gas portfolio. Temperatures at the start of 2018 were very warm, and when it got cold again in late March we had already hedged the prices and focused on ensuring a reliable gas supply despite very low inventories in gas storage facilities.
- Third, earnings on gas optimization activities in the first quarter have not yet fully worked their way through our books, and some will be reported in the second quarter.

As anticipated, our operating earnings benefited from:

- tax reductions along with higher output at our hydro and nuclear plants in Sweden
- income from capacity-market payments in the United Kingdom and France
- cost savings.

In the first quarter of 2018 we recorded **net income** of €130 million and net income attributable to Uniper shareholders of €114 million. Whereas net income in the prior-year quarter benefited from substantial positive nonrecurring items related to marking to market on the balance-sheet date, these items barely made an impact at the current-year balance-

sheet date. By contrast, our first-quarter net income in 2018 benefited primarily from positive tax effects.

I'll turn now from our key earnings figures to our **operating cash flow**, which totaled €620 million in the first quarter. Although this figure is below those for the first quarters of 2016 and 2017, it's still at a good level. What has changed in the interim? One factor is that in 2017 we began to manage our working capital more actively. Our objective is to reduce the substantial seasonal fluctuations between the fourth and first quarter and thus make our available funds more predictable. Active working-capital management enabled us to reduce the adverse impact that the buildup of inventory at our gas storage facilities had on our operating cash flow in the fourth quarter of 2017. But this means that the corresponding positive impact that withdrawals from storage had on operating cash flow in the first quarter of 2018 was less pronounced.

Adjusted funds from operations (FFO), which we use to assess the potential dividend payout to our shareholders, totaled €562 million in the first quarter of 2018, an increase of €120 million relative to the prior-year period. Here, too, we benefited from a reduction in the utilization of provisions and positive tax effects.

Our **economic net debt** stood at €2.6 billion at the March 31 balance-sheet date, which was slightly above the level at year-end 2017. But the slight increase of €0.2 billion doesn't mean that our financial discipline wavered. Instead, it's primarily attributable to the application for International Financial Reporting Standard 16, which for the first time requires that liabilities under operating leases to be reported on the balance sheet. This mainly affected leasing payments for gas storage facilities and resulted in an increase in our financial liabilities. In addition, our pension obligations increased slightly owing to lower actuarial interest rates. The collateral we provide to global energy exchanges to back our trading transactions was also somewhat higher due to higher wholesale prices and our already hedged positions.

Our **cash-effective investments** totaled €118 million in the first quarter of 2018, which was somewhat less than in the prior-year period. Two thirds of these investments went toward growth, primarily toward our two major projects, Datteln 4 and Berezovskaya 3. Maintenance investments accounted for the other third. Here, the focus was on our fossil-fueled and hydro power plants.

To conclude I'll turn to our **forecast**: today we reaffirm our earnings forecast and dividend proposal for 2018. As we communicated on March 8, we expect our adjusted EBIT to be between €0.8 and €1.1 billion. Our dividend plans are unchanged: we intend to increase the dividend by an average of 25 percent per year between the 2016 and 2020 financial years. This means a planned dividend proposal of about €310 million for the 2018 financial year.

In summation, we're satisfied with our overall earnings and balance-sheet performance in the first quarter of 2018. Although some external factors, such as the winter weather, could've been more favorable, all of our key figures are in line with our expectations and targets. This gives us a good starting position from which to achieve our targets for the 2018 financial year.

That concludes my remarks. I'll hand things back to Astrid Quarten.

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