Telephone Conference for Media Representatives

Uniper's Business Performance in H1 2018

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Statement by:

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Please check against delivery.

Thank you, Mr. Erichsen. I too would like to welcome you to today's press conference. Thank you for joining us. As we announced last week, Klaus Schäfer unfortunately can't be with us today. Our thoughts are with him and his family. We wish Klaus all the best and hope that he gets well soon and returns as quickly as possible. In the interim, Klaus's responsibilities have been divided among his Management Board colleagues. We have agreed that I will have responsibility for Communications and Governmental Relations and for the time being, will therefore be the Board's first point of contact for you as journalists.

I'll start today by giving you an overview of current issues from Uniper's point of view. As usual, I'll then talk in detail about our first-half results.

Where does Uniper stand in the summer of 2018? As you know, E.ON fully divested its Uniper stake a few weeks ago. After the conclusion of the public takeover offer on June 26, Fortum, which has a stake of just over 47 percent, is now our largest shareholder. We'd like to welcome Fortum as a Uniper shareholder. This is the starting point to explore opportunities to work together and also to explore options for creating value for Uniper and thus indirectly for Fortum too as one of our shareholders. A first visible change is the court's appointment of Fortum CFO Markus Rauramo as a new member of the Uniper Supervisory Board after, as anticipated, the E.ON representative ended his service.

We're now working systematically to enhance our strategic development and to implement what we've set out to do. This will involve expanding our capabilities and operations in power generation, energy trading, and energy storage. Going forward, gas will play a bigger role in our business. We had a strong gas business back in our Ruhrgas days. We're looking for new growth opportunities at all stages of the global gas value chain. Gas is a growth market worldwide. And Uniper is well positioned.

At the same time, we're broadening our partnerships with our industrial customers. In this effort, we benefit from the strong regional presence of our existing assets. Here's an example of what Uniper's near future could look like. In late July we concluded a long-term extension of an existing partnership with an industrial enterprise near Scholven power plant in Gelsenkirchen in west-central Germany. Going forward, Scholven will become a gas-fired

power plant. We plan to completely redesign this asset. We're going to install a combined-heat-and-power (CHP) unit consisting of two gas turbines and a steam boiler. This gas-fired capacity will supplement and later completely replace the existing coal-fired generating units. This plan will build on the existing infrastructure and our long-standing partnerships so that together we can create new prospects for Scholven. The investments are expected to be in the low triple-digit million range, which is precisely the magnitude we look for in investment projects. This is very good news for North Rhine-Westphalia. A solution like this gives an existing asset a viable future. It will help promote a successful structural transformation for North Rhine-Westphalia, the companies involved, and the people of the region.

That said, Germany still offers no long-term investment security for CHP units. This is regrettable, because the cogeneration of electricity and heat is highly efficient, particularly when it's gas-fired and utilizes existing infrastructure. If Germany is to convert more coal-fired assets to gas, it needs to establish a clear and stable long-term regulatory environment. The amendment to the Cogeneration Act announced in the coalition agreement should therefore be factored in to the deliberations on phasing out coal. This would give these types of projects long-term prospects.

Of course, we're not only pursuing our strategy here in Germany but are also targeting growth regions worldwide. In these regions we offer engineering services for power-plant operations as well as complex trading products. As soon as any new projects are definitive, we'll of course report on them.

What was important for Uniper in the first half of the year? Let's start with **price developments.** Our most important product is the reliable supply of electricity and gas. In just one year, the year-ahead price of baseload electricity on the European Energy Exchange in Leipzig has risen from around €28 per megawatt-hour (MWh) to around €44 per MWh. That's an increase of more than 50 percent. Today's prices are the highest of the past five years. The trend in electricity prices has changed from downward to upward, driven primarily by the rise in hard coal prices worldwide and by higher prices for carbon allowances. In the past year, gas prices at the virtual trading point in the Netherlands have

increased by almost 50 percent as well to more than €22 per MWh. Over the medium term, these market developments will give impetus to our business. This is true even though the spreads, which are also important for our business, have narrowed. But trends are definitely positive. And the journalists who have covered us for awhile know that this hasn't been the case for a long time.

We believe there are three reasons why these price developments could continue:

1. The global price of coal is benefiting from the megatrend of rising energy demand. The rapid growth of population and industrial demand, particularly in Asia, won't slow down anytime soon. The impact of this extends as far as electricity prices in Germany.
2. Geopolitically, we live in uncertain times. This is pushing up oil and gas prices in particular. The imposition of sanctions on large producer countries like Iran causes uncertainty.
3. In Europe, it's less about the growth of demand than the increasing scarcity of supply. Going forward, Europe's gas resources in the North Sea and the Netherlands will decline or—like Groningen gas field—will no longer be exploited. For political reasons, nuclear and coal's share of electricity production will fall significantly, and investments aren't being made to replace this with a similar amount of new, reliable capacity. This can't remain without consequences for the price of a secure power supply. In Germany in particular, the phaseout of nuclear energy and the expiration of the lignite reserve and the resulting supply shortage are expected to lead to an increase in electricity prices.

In our view, the upward trend in energy prices isn't just temporary. At the same time, supply security is becoming an increasingly scarce commodity, even in the summer. Across Europe, for example, there's now talk of supply shortages, which in power generation are caused by high water temperatures and low water levels. Some nuclear power stations in France have had to curtail their output. Low water levels and high water temperatures have forced nuclear power stations in Germany to reduce their output as well. Some coal-fired power stations could have difficulty receiving their supply of coal by river. Hydroelectric stations are producing less, especially in Scandinavia. And in the case of "new"

renewables, persistent high-pressure systems over Europe have generally reduced the wind feed-in to less than 5 GW in Germany alone. That's not even 10 percent of Germany's installed wind capacity. In a situation like this, it's good that Germany and Europe can rely on a broadly diversified portfolio of different generation assets and technologies.

Yet European countries are now racing each other to **phase out coal-fired power generation.** Different time periods and methods for the phaseout are under discussion. Each country is acting unilaterally instead of considering the fact they're part of a European electricity market. This issue could be addressed in a coordinated, European way. Unfortunately, however, energy policy in Europe remains essentially national in scope. For us, it's therefore important that supply security isn't viewed simplistically or narrow-mindedly. Obviously, under normal circumstances Germany and Europe have enough generating capacity to render the output of a coal-fired power station or two unnecessary. But supply security requires thinking beyond normal circumstances and national borders. It requires considering realistic exceptional situations—across Europe. The so-called summer of the century in 2003 was just such an exceptional situation. The hot weather forced many nuclear power stations in France to reduce their output. Many power plants in Germany, particularly those that use river water for cooling, also had to curtail production or apply for special permits for cooling water intake. As a result, electricity prices on the energy exchange rose to several hundred euros per MWh, a previously inconceivable level. And today? The next few weeks will show how robust Europe's supply systems are. We predict that supply security and grid stability will face a major challenge, especially in Western Europe, but will ultimately remain intact. But what will the future bring?

Germany, in addition to closing its last remaining nuclear power stations during the next five years, is making preparations to phase out coal-fired power generation. We hope that a consensus solution can be reached. In addition to climate targets, the interests of people and companies need to be considered. The objective should be for everyone to have legal and planning certainty. Germany managed to achieve this for the end of hard-coal production as well as the lignite security reserve. Why shouldn't this also be possible for the future of coal? Unlike the nuclear-energy debate after Fukushima, the coal debate isn't driven by outside events. We now have the opportunity to reach a consensus on where

Germany wants to go and what price German society is prepared to pay. And, as we've emphasized repeatedly, phasing out coal won't be free. But the necessary compensation wouldn't throw Germany off course. We're certain that even a few billion euros, which could be spread over several years, could make a very tangible contribution toward reducing carbon emissions.

The governments of the Netherlands and France intend to phase out coal-fired power generation dramatically sooner. In the **Netherlands,** it's expected to end as early as 2029. The government set this process in motion this past May without making any offer of fair compensation. As a power-plant operator, we put our faith in the commitments of previous governments at the time we made investments there.

In particular, this impacts Maasvlakte 3, our new power plant outside Rotterdam. One of the world's most efficient hard-coal-fired power plants, it's a showcase project at the mouth of the Rhine that's ideally embedded in the infrastructure of an industrial and agricultural cluster. We didn't build this power plant just to tear it down less than 15 years later. It fulfills tasks that policymakers and the general public asked us to fulfill at the time. Uniper has presented its position in the ongoing consultation process in the Netherlands. We've also pointed out that another policy proposal—the introduction of a national carbon price—could seriously threaten the Netherlands' supply security. So far we haven't had any success. Although the Hague invokes the Dutch tradition of "polder politics," it's only doing so in order to exert moral pressure on the companies involved. If the government doesn't alter its position on this issue, it's obvious that Uniper will have to explore its legal options.

The situation is similar in **France**, where Uniper has invested more than €1 billion over the past ten years to make its power stations fit for the future and to reduce their carbon emissions. Through investments and the closure of five coal-fired generating units Uniper has reduced France's overall carbon emissions by 7.5 percent and our own emissions there by more than half. Last December President Macron announced that France will phase out coal-fired power generation by the end of 2021. This will affect more than half of our generation business there. And in the very near future: two 600-megawatt (MW) coal-fired power plants and about 250 employees, most of whom work at the plants. Of our roughly

2,100 MW of installed generating capacity in France—which from a technical standpoint could operate many years into the future—just 900 MW would remain.

If the government pushes through its plans without reaching a consensus with the companies affected, the commercial existence of our entire business in France would be endangered. This would likely have severe social consequences, to say nothing of the strikes that we could expect, which would further endanger the economic foundation of our business. We couldn't absorb a blow like this with our remaining business in France, which consists of renewables, gas-fired power plants, and energy sales, particularly since we just concluded a ten-year phase of restructuring and new investment. In this case, we'd have to think seriously about Uniper's future in France.

The government is familiar with our position, but so far there haven't been direct discussions. To date, there's no legal or energy-policy information about the modalities of France's phaseout of coal.

As a result, our employees in France are working and living in complete uncertainty about the future, albeit with the expectation that in three years 56 percent of our business there will simply disappear. It's an untenable situation, one that we can only explain by the fact that we're a comparatively small player there. France actually has just two operators of coal-fired power plants: Uniper with about 1,200 MW of installed capacity and EdF with about 1,800 MW. Consequently, France's phaseout of coal-fired power generation, which has been praised at climate conferences, disproportionately impacts a German company that has invested a lot in France's energy transition and is practically the only remaining non-French and non-state-owned investor in France's energy industry. I don't think this is a good sign for the European internal market, for Franco-German cooperation on energy issues, or for foreign investors in France. We urgently need a solution for our remaining operations in France.

We believe that Germany, France, and the Netherlands face very similar challenges. However, experience has shown that a solution that goes against companies and employees is ultimately both expensive and protracted. Consensus, by contrast, can lead to

a mutually acceptable outcome for all sides in a relatively short time. Moreover, it can lead to an outcome that is (a) compatible with EU law, (b) secures the electricity system, and (c) provides a certain future for companies and employees.

Unfortunately, political developments are impacting the gas market as well, in our case the Nord Stream 2 project, which we're co-financing with other companies. As you know, this project will make an important contribution toward diversifying Europe's gas transport pathways. To help secure Europe's gas supply while its domestic reserves continue to decline, we procure gas from a variety of sources: the Netherlands, Azerbaijan, liquefied natural gas from Qatar, the United States, and other export regions. Uniper utilizes all of these options precisely because we want to avoid dependence on a single region. And relations with Russia are obviously not always harmonious. You probably know that we're now again in arbitration proceedings with Gazprom to renegotiate the terms of our long-term procurement contracts. Here, we're helped by the fact that we ourselves are an independent, confident gas company that negotiates with our partners as an equal. Europe would do well to adopt this approach. The more options it has, the better. Europe's decision about where it wants to procure its gas certainly won't benefit from outside political interference.

There's currently nothing new to report about our two other major growth projects, Berezovskaya 3 und Datteln 4.

I'll turn now to the development of our key performance indicators for the first half of 2018.

As usual, I'd like to start by providing some commentary on adjusted EBIT, our key figure for operating earnings. We recorded adjusted EBIT of €601 million in the first half of 2018 compared with €930 million in the prior-year period. The year-on-year decline of roughly €330 was largely anticipated and reflects the image we painted of the first quarter of 2018. The development of our operating earnings reflected the following main effects:

- Compared with the prior-year period, we no longer have earnings streams from the divested stake in Yuzhno-Russkoye gas field and from the generating units we decommissioned in the summer of 2017: Maasvlakte 1 and 2 in the Netherlands and Oskarshamn 1 in Sweden.
- An additional factor in the second quarter was that the insurance payment for Berezovskaya 3 in Russia, which we received about a year ago, of course did not recur this year.

These items alone total about €500 million. This has to be kept in mind in order to understand our earnings performance and thus also our cash-flow performance on a like-for-like basis.

At our European Generation segment, two factors at our hydro and nuclear operations in Sweden benefited our operating earnings in the first half of 2018. First, there was the positive regulatory effect of the already-known tax reductions on hydro and nuclear power stations in Sweden. Second, higher water levels enabled our hydroelectric stations in Sweden to produce more. By contrast, adjusted EBIT was adversely affected by the continued low prices for the forward marketing of our generating capacity. This is because we previously hedged the prices for a portion of this capacity at lower price levels. With achieved prices for hydro and nuclear power about €4 per MWh lower than in the prior-year period, the pressure on prices remains high. By contrast, income from compensation from the U.K. capacity market had a positive impact on our operating earnings in the first half of 2018. The same applies to effects resulting from the release of provisions.

The good news at our Global Commodities segment is that our gas business's earnings, after a comparatively weak start to the year, got back on course in the second quarter. You may remember that in early May we said that some positive season effects at our storage and optimization business wouldn't be reflected in our earnings and cash-flow performance until later in the year. At the end of the second quarter, we're not yet precisely where we want to be, but we're definitely on the right course.

Operating earnings at our International Power segment, which consists primarily of our business in Russia, were largely stable, if the non-recurrence of the insurance payment for Berezovskaya 3 is factored out. Adjusted EBIT was adversely affected by negative currency-translation effects on the Russia ruble as well as lower output. An upward adjustment of tariff payments for new capacity at Surgutskaya power station, which took effect in April 2017, had a positive impact on earnings.

Uniper recorded a net loss of €522 million for the first half of 2018. At first glance, that doesn't look particularly pleasing. But it only tells one side of the story. To begin with, our first-half net loss is due mainly to the significantly negative impact of the marking to market of commodity derivatives at the balance-sheet date. Marking to market resulted in a significantly positive effect at last year's balance-sheet date but in a negative effort of about €1 billion at the end of the first half of this year. Why is that? To reduce our portfolio's price risk, we hedged our long-term power and gas positions at an earlier point in time. In the meantime, the price of power—measured by the year-ahead futures contract for baseload power—has increased significantly. The same applies to forward gas prices. The difference between current forward prices and the price of the derivatives we used to hedge our position results in the negative valuation effect I just mentioned.

Then there's the other half of the story. Each derivative transaction hedges an underlying physical transaction. At Uniper, these positions are for our generating capacity or long-term procurement contracts. When these positions become due and are settled, as of today we'd receive higher market prices. In accordance with accounting standards, these countervailing positive effects are not yet shown in our income statement, but they eventually will be. Effects from the marking to market of derivatives are factored out of our operating earnings and are therefore not part of our earnings forecast for 2018 and beyond.

This brings us to our cash performance and thus to the key figures that are relevant for our dividend policy: operating cash flow and adjusted funds from operations (adjusted FFO).

Our first-half operating cash flow of €465 million declined by about €950 million year on year.

There are two main reasons for this change relative to the prior-year period:

- Alongside the aforementioned decline in our operating earnings, which resulted mainly from non-recurring items, our cash flow benefited from positive tax effects and a reduction in the utilization of provisions.
- The active management of our working capital is another aspect. Our objective is to reduce the substantial seasonal fluctuations between quarters and thus make our available funds more predictable. Our operating cash flow benefited from this approach in 2017, whereas the effect was less pronounced in the first half of this year.

This picture should change going forward, leading to improved operating cash flow by the end of the year.

Before I talk about our economic net debt, I'd like to say a few words about our adjusted FFO, which at €589 million was €89 million below the figure for the first half of 2017. However, this decline also reflects our expectations, since the decline in our operating earnings was largely offset by positive tax effects and a reduction in the utilization of provisions. The aforementioned seasonal fluctuations in working capital and the marking to market of derivatives don't affect adjusted FFO. From the beginning, our dividend policy has been designed to ensure that funds available for distribution are as predictable as possible.

Turning now to our debt, at June 30, 2018, our economic net debt stood at €3.3 billion, an increase of about €0.8 relative to year-end 2017.

There are four main reasons for this:

- Slightly less than half of the increase is attributable to the application of IFRS 16, which for the first time requires that liabilities under operating leases to be reported on the balance sheet. We explained this item when we reported our first-quarter results.
- Another, not inconsiderable reason is that the sharp increase in commodity prices has required us to provide more collateral to back our trading transactions. This had an adverse impact on liquid funds at the end of the second quarter.

- Cash-effective investments totaled €244 million in the first half of 2018, €50 million less than in the prior-year period. The change mainly reflects lower investments in Datteln 4 and Berezovskaya 3 generating units. First-half growth investments totaled €154 million, maintenance investments €90 million.
- Last but not least, our dividend payout for the 2017 financial year required liquid funds of roughly €271.

On balance, our operating cash flow didn't fully cover our investment expenditures and the dividend payout this past June. This is reflected in our debt situation at the half-year balance-sheet date. Looking ahead to the end of the year, we expect that our economic net debt will hardly change, although this will depend in part on the amount of collateral we'll need to provide to back our trading transactions.

All in all, after the first half we're well positioned to meet our targets for 2018. Today we therefore reaffirm our forecast for full-year 2018. We continue to expect our adjusted EBIT to be between €0.8 and €1.1 billion.

That concludes my remarks. I'll hand things back to Mr. Erichsen.

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