



## **Telephone Conference for Media Representatives**

### **Uniper's Business Performance in H1/Q2 2017**

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**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 first-half results for 2017.

As usual, I'll start by addressing some of what I consider to be the main themes. After that, Christopher Delbrück will talk about our first-half numbers in detail.

Uniper has been listed on the stock market since September 12, 2016. So it's still a little early for a review of our first year as a listed company. Since the listing, the price of Uniper stock has increased by more than 80 percent, and the upward trend has been very steady. Increasingly, investors are becoming believers in Uniper. First, because we deliver on our promises. Second, because our business model and its logic are becoming better understood. On behalf of Uniper I'd like to emphasize that we not only feel good as an independent company but we also feel strong enough to compete successfully on our own.

Our customers and our investors see our value primarily in our ability to ensure that our customers have a reliable energy supply. Moreover, this makes us less exposed to fluctuations in energy prices. And that's our objective: Uniper's business isn't primarily about selling another megawatt-hour of power or another cubic meter of gas. Instead, it's about ensuring that customers get the megawatt-hours of power and cubic meters of gas that they need—at any time of the day or night. That differentiates us from competitors who can produce clean power when the weather is right but, when conditions change, rely on our flexible power plants and storage facilities to pick up the slack.

Our operating business continues to perform well. Uniper's results for the first half of 2017 were extremely solid and even somewhat ahead of our expectations. Our clear focus on strengthening our balance sheet, cash flow, and competitiveness has paid off. Our cash flow – and thus our competitiveness – of course also benefits from the measures we've taken to reduce our costs and to make our organization leaner and more agile. As



announced, we'll reduce our costs by roughly €400 million by the end of 2018. We already achieved more than half of these savings by the end of 2016.

Turning to the sale of our stake in Yuzhno Russkoye gas field, we received the governmental approvals. Other approvals are still pending. We remain confident that the transaction will be completed by the end of the year as planned. The reconstruction of Berezovskaya 3 power plant in Russia is challenging but moving forward. Although we're making tangible progress, we said recently that we don't expect the plant to reenter service before 2019. Today, we can make this statement more precise because we reached an agreement with the main subcontractors responsible for the repairs, which finally gives us planning certainty with regard to the remaining repairs and the timetable. In view of these developments, we expect the power plant to be back online in the third quarter of 2019. The remaining repair costs total roughly RUB 28 billion. The good news is that a substantial portion of the damage is covered by insurance. Here in Germany, Datteln 4 is also making good progress toward its commissioning. I can assure you that in the second half of the year we'll continue to work without letup to move forward with our major capital projects and to deliver them reliably. That's a brief preview of key developments. In a few moments Christopher Delbrück will talk about our numbers in greater detail.

2017 will be a pivotal year in terms of policy – and thus energy policy – decisions. You all know the main themes: elections in France, elections in the Netherlands, elections in Germany, a new U.S. president, and Brexit and its consequences for Europe. Today's conference call will therefore devote more attention than usual to Uniper's policy environment.

I'll start with France, where the new government's first public statements on energy policy already indicate that this country is on the verge of an energy transition whose scope will be comparable to that of Germany. Imagine what it means when a country that until now has relied on nuclear power stations for 75 percent of its electricity intends to reduce this proportion to 50 percent, even if this process takes longer than initially assumed. France also intends to introduce a minimum carbon price in order to support its state-owned energy utility, to increase renewables' share of the power mix to 30 percent, and to phase out coal



by 2022. Change on this scale won't be without consequences for Europe's closely integrated power and gas market, particularly for Germany.

To understand the big picture, it's worth taking a look at some key numbers for Northwestern Europe (Source: entso-e 2017):

- By 2022: Germany will shut down its remaining roughly 10,000 MW of nuclear capacity
- By 2019: 2,700 MW of Germany's lignite capacity within the so-called climate reserve will de facto leave the market and will finally be phased out by 2023.
- By 2022: France plans to phase out its roughly 3,000 MW of coal capacity
- By 2025: France wants to reduce nuclear's share of its energy mix from 75 to 50 percent by, according to speculation, shutting down roughly one third of its reactors, which would be about 19,000 MW
- Also by 2025: Great Britain intends to phase out its remaining roughly 12,000 MW of coal capacity, and Belgium intends to phase out its 6,000 MW of nuclear capacity.

This means that a few years from now, policy decisions will likely have removed more than 50,000 MW of capacity from the market. At the same time, renewables will continue their massive expansion. In principle, this isn't a bad thing. But to properly grasp its impact, one needs to factor in supply security: of every 100 MW of wind or solar capacity in Europe, only 4 MW are considered "secure capacity." This means that every megawatt of secure capacity withdrawn from the market needs to be replaced by a multiple of megawatts of renewables capacity.

And then there's Brexit and its uncertain consequences for Britain's supply security, energy trading, and the movement of power and gas between Britain and the Continent. For now I'll leave aside developments in other European countries. But on the whole, Europe is on the verge of a far-reaching transformation of its energy systems. To help smooth out this transitional phase, many European countries, including France and Great Britain, have established markets for flexible reserve generating capacity and have conducted successful auctions for this capacity. So far, Germany has missed this opportunity. Instead, it has tried one stopgap after another. This approach is very challenging for the energy system and very expensive for energy customers. One thing is certain: the demand for supply security



will increase across Europe in the years ahead, and Germany isn't sufficiently prepared for it.

The Bundestag election is next month. One of your colleagues asked me recently what I hope from the new government. I answered that I'd like for the issue of supply security to again be high on the agenda. A few weeks ago, Amprion and TenneT, two of Germany's large transmission system operators, spoke about the situation in Germany. They reported that in the first four months of the year the number of emergency interventions to stabilize Germany's electricity grid had increased significantly. Costs had risen by about 50 percent relative to the prior year. Back in 2015, electricity customers in Germany paid about €1 billion for emergency interventions. In 2016, they paid somewhat less – €660 million – because less wind power was produced. This year it looks like these costs will again be significantly higher. Germany's Federal Network Agency has forecast that electricity customers will pay about €4 billion in additional grid-management costs in 2022. With these costs mushrooming, it's high time for Germany to talk seriously about introducing a competitive market for generating capacity. Such a market would be more efficient, more cost-effective, more transparent, and more reliable than the many emergency interventions that have to be performed in today's grid. In any case, no new government of a heavily industrialized country like Germany will be able to ignore the issue of supply security. And because Germany's key industries face international competition, it won't be able to ignore the issues of competitiveness and costs either. After what will soon be almost 20 years, Germany's energy transition finally needs to achieve its objectives. And along with climate protection, these objectives are affordability and supply reliability.

Some good things are happening. In recent years, the German federal government has finally taken the first steps toward reining in energy costs by introducing more competition-based mechanisms to support the growth of renewables. Ultimately, however, this has resulted in the creation of a capacity market for generation technologies that otherwise wouldn't have prevailed in Germany's current power market.

In Uniper's home region, the new state government of North Rhine-Westphalia has already recognized the need to take corrective action. It announced an "energy-policy reset" and



stated its commitment to a “secure and affordable energy supply and effective climate protection.” In my view, this sends an important signal primarily because it once again emphasizes all three energy-policy objectives. The new state government plans to undo the imbalances created by the energy transition. New renewables facilities will no longer receive preferential dispatch vis-à-vis other generation technologies. The new government also intends to end subsidies for new renewables facilities under Germany’s Renewable Energy Law. This would make price formation more market-based. If the new government succeeds in establishing “open capacity markets” based on technology neutrality and efficiency, it would be a big step in the right direction. Power producers of all kinds would then have to issue a guarantee that they can actually deliver the capacity they’re marketing. All of these are policies that Germany’s new government should embrace as well. Only a small portion of the expensive capacity built under Germany’s current subsidy scheme can be considered secure. It will be difficult for the providers of this capacity to issue such a guarantee. That is, unless they have access to good and effective storage systems. And energy storage is another issue that North Rhine-Westphalia is again paying attention to. If the new government puts its policy proposals into action, NRW could set an example for how to establish a secure and fair energy market. Its government and business community could demonstrate together how a heavily industrialized region could move forward by combining existing resources and capabilities intelligently and by fostering innovation. This of course also includes the most advanced technologies for conventional power generation.

The new NRW Minister for Economic Affairs and Digitalization, Prof. Andreas Pinkwart, recently described lignite-fired and hard-coal-fired power generation as a bridge that should be as short as possible. I agree. But every bridge has to be long enough to reach the other side. Ultimately, the bridge’s length will be decided by customers and their need for a completely uninterrupted and affordable energy supply. It will be decided by the need for industry to remain competitive. Thousands of jobs depend on this. We need solutions for these issues.

I’ll turn now to gas. Regrettably, the Nord Stream 2 project has also become a political issue, although it’s actually a purely commercial endeavor. Last week the United States enacted a law that gives its government the option of placing sanctions. The law is perhaps



only ostensibly a response to Russia's intervention in the U.S. presidential election and to its occupation of the Crimean peninsula. At the law's core, however, are U.S. strategic economic interests; namely, America's ambition to dominate the global energy market. Uniper's willingness to finance Nord Stream 2 together with other European companies is based on the conviction that this additional gas pipeline is a sensible piece of energy infrastructure and that our investment will yield a profitable return. Europe will have to import more gas in the future. It already imports about 200 billion cubic meters (bcm) of gas a year. Domestic production sources are drying up in the European Union and in Norway, while the demand for gas will increase going forward. That's why expanding Europe's gas infrastructure is simply a necessity in order to ensure its supply security. And, yes, I believe this infrastructure should include new gas transport capacity from Russia and other regions. Russian pipeline gas has been a reliable source of supply in terms of both quantity and prices since the 1970s. That's not the case with liquefied natural gas (LNG). Whether ship cargoes of LNG come to Europe depends on the current demand situation and prices in other parts of the world, particularly Asia. If Asia is paying high prices for LNG, the tanker ships immediately alter their course for Japan or China. And LNG prices often fluctuate sharply over a very short period of time. If in the future Europe wants to supply itself predominantly with LNG, it needs to be prepared to compete with Asia in terms of price. However, even compared with European spot prices for gas, U.S. LNG cargoes are much too expensive. Let's compare LNG prices based on Henry Hub balancing point in the United States with those at the Title Transfer Facility in the Netherlands, Western Europe's main gas hub. On a total cost basis, U.S. LNG prices are currently between €5 and €10 per MWh – or up to 50 percent – above the reference prices in Europe. Hardly anyone wants to pay this premium. This is reflected in the amount of U.S. gas supplied to Europe. Since the United States began exporting LNG early last year, 155 U.S. LNG ships have put to sea. Only 17 of them arrived in Europe. The rest went primarily to South America, India, or China – in other words, to destinations with low transport costs or higher prices. Europe's regasification capacity is largely idle: only about one fourth of Western Europe's available regasification capacity has actually been used recently. So far this year, only about 30 bcm of LNG has been supplied to Europe, of which only 1.2 bcm came from the United States. As a reminder, Europe currently needs to import 200 bcm of gas per year, a figure that is trending higher.



I believe that these few numbers alone indicate how far Europe is from meeting its needs predominantly with LNG from the United States. I remain convinced that both types of gas supply – pipeline and LNG – will continue to have their respective function and justification in tomorrow's global gas market, and Uniper is active in both. Customers need diverse sources of supply. In an uncertain world it's important to have a wide variety of options. Obviously, policymakers actually shouldn't intervene in this competition. That would only create precisely the kind of one-sided supply dependency that no one in the EU wants and that would have unwelcome consequences for the security and costs of Europe's gas supply.

I'd like to state very clearly that I'm firmly convinced that Nord Stream 2 will be built. European energy policy can't be at the mercy of American economic and domestic policy. That's why I'm very pleased that the German government and the European Commission have this firmly in view and have stated their position unequivocally. The United States is putting Europe's supply security at risk for the sole purpose of pursuing its own economic interests and to protect domestic jobs. It's important that European and German policymakers are standing shoulder to shoulder and have already made clear that they won't allow this to happen.

If the United States actually places sanctions on companies that support Nord Stream 2, this wouldn't be the only project affected. A series of sanctions and counter-sanctions could torpedo almost any energy infrastructure project. And could impact other industries as well. That's why Wolfgang Ischinger, the Chairman of the Munich Security Conference, repeatedly pointed out that Nord Stream 2 is a European matter that should be decided by Europeans themselves on the basis of European law. I'm aware of my responsibility toward our shareholders and employees, and I take it very seriously. I'll therefore do everything I can to protect Uniper from the risks of possible U.S. sanctions.

In these uncertain times, perhaps it's not a bad idea to tap new, alternative sources of gas and to produce it ourselves.



It's becoming apparent that natural gas will serve as one of the main bridges to renewables. That's one of the reasons why it makes sense to talk about how gas can become renewable. Then we could continue to use the entire existing infrastructure for gas transport and storage and for power and heat production, which would help reduce costs.

This is particularly obvious for gas produced from renewables. Power-to-gas (P2G) plants use electrolysis to transform surplus wind power into gas, which is injected into the gas pipeline system and can thus be used at a later time and in a different place: at industrial enterprises, in power production, and as a fuel for space heating or transport. It can be stored in the existing natural gas infrastructure and is therefore attractive from an efficiency standpoint as well.

Sector coupling isn't about completely electrifying all energy-intensive sectors of the economy. In fact, gas can and will play a key role in sector coupling, particularly when it's produced from renewable sources and can be stored. Our plants in Falkenhagen in Brandenburg and in Reitbrook outside Hamburg have brought P2G technology to market maturity. Just four weeks ago, we and our project partners added methane production equipment to the Falkenhagen plant. And we have all the necessary infrastructure: Uniper's gas storage facilities could, by themselves, provide all the flexibility that the German power market currently needs due to the preferential dispatch of renewables. Thanks to its flexibility and range of applications, P2G could become a key technology for the energy transition. For this to happen, however, policymakers need to pave the way for this technology to be economic on an industrial scale. Only then can the integration of renewables by means of green gas really begin to pick up pace.

As you can see, Uniper is helping in a wide variety of ways to make energy more secure and cleaner. For this, it's important that policymakers make prudent decisions this year and beyond. Uniper is always available: as a competent partner with a flexible portfolio and innovative solutions.

With that I'll hand things over to Christopher Delbrück.



**[Speaker: Christopher Delbrück]**

Thanks, Klaus. Good morning, everyone. I too would like to welcome you to the telephone conference on our half-year results. As usual, I'll provide you with an overview of the development of our key financial figures. Before I go into the details, I'd like to say as a side note that today's conference call marks the first year of Uniper's financial communications. In August 2016 we disclosed the main aspects of our business performance for the first time. Even though at that time we weren't yet listed, it was important to us to provide the market with transparency about our business and our numbers early on. Since then, we've implemented numerous measures to strengthen Uniper's balance sheet and competitiveness, just as we said we would. Despite persistently challenging market conditions, our operating performance has been solid. This also applies to the second quarter and the first half of 2017.

We generated adjusted EBIT of €930 million in the first half of 2017. Although this represents a year-on-year decline of about €200 million, the prior-year figure included large one-off items that, as we announced and anticipated, didn't recur. This applies above all to the significant positive effect resulting from our agreement with Gazprom to adjust the terms of our long-term gas procurement contracts and likewise to the extraordinarily high earnings from our gas optimization activities. Our first-half adjusted EBIT also benefitted from the non-recurrence of the impairment charge we recorded last year on Berezovskaya 3, our damaged generating unit in Russia. Favorable developments in the ruble exchange rate constituted another positive factor.

Another main positive driver for our first-half adjusted EBIT was our International Power segment. This segment continued its solid operating performance, and we also received the remaining insurance payment for the fire at Berezovskaya 3 in Russia. I'll say more about that in a moment. First let's look at the earnings performance of our business segments in the usual order.

**European Generation** continued its robust earnings trend from the first quarter of 2017, despite lower achieved power prices and narrower margins. Its adjusted EBIT rose by €164 million, from €120 million in the first half of 2016 to €284 million this year. All generation



technologies contributed to the increase. As you know, this segment recorded substantial impairment charges on fossil-fueled assets in the prior-year period. As a result, scheduled depreciation charges were significantly lower in the first half of this year, which had a positive impact on earnings. The return to service of Ringhals 2 nuclear power station in Sweden at the end of 2016 led to higher earnings. The earnings improvement at our hydro fleet is attributable to one-off items, such as the non-recurrence of provisions for restructuring measures recorded in the prior-year period. This offset adverse price and volume effects.

In sum, our diversified European generation portfolio proved to be a stable source of earnings in the first half of 2017, even though it benefited to some degree from one-off items.

**Global Commodities'** adjusted EBIT decreased by €0.8 billion, from €1.1 billion to €262 million. As anticipated, the decline is chiefly attributable to the fact that our gas business's earnings, which were extremely strong in the prior-year period, returned to a normal level this year. First, the positive one-off item resulting from our agreement with Gazprom did not recur. Second, as anticipated, our optimization earnings returned to a normal level.

**International Power's** adjusted EBIT rose by €516 million to €477 million compared with - €39 million last year. This sharp increase is mainly attributable to the following items:

- First, relative to the first half of 2016, the adverse earnings impact of the fire in the 800 MW unit 3 at Berezovskaya power station in Russia did not recur
- Second, in May 2017 we received the remaining RUB 20.5 billion insurance payment, which is equal to about €326 million. Higher tariff payments and favorable developments in the ruble exchange rate also had a positive impact on earnings.

Uniper recorded first-half **net income** of €1.1 billion. Net income attributable to Uniper shareholders totaled €967 million. In the prior-year period we posted a net loss of €3.9 billion. The significant improvement in our net income in the first half of 2017 reflects the non-recurrence of the substantial impairment charges we had to record on our generation and storage business in Europe in 2016.



The marking to market of derivative financial instruments also had a positive impact on net income. We use derivatives in part to hedge our long-term power and gas positions in our trading business. Marking to market at the balance-sheet date resulted in a significantly negative figure in 2016. This time it was in our favor and enabled us to record a positive earnings effect of €446 million for the first half of 2017.

Our first-half **operating cash flow** totaled €1.4 billion compared with €2 billion in the prior-year period. The year-on-year decline has the following main reasons:

- In the first half of 2016, Uniper had comparatively low payments for gas procured under long-term supply contracts, which had a positive impact on our prior-year operating cash flow
- In addition, in the first quarter of 2016 we received a one-off payment from Finnish energy utility Fortum for the partial shutdown of Oskarshamn nuclear power station in Sweden
- These items were partially offset by the one-time payment we made to Gazprom in 2016 in conjunction with the agreement on new terms for our long-term gas supply contracts.

Our operating cash flow for the first half of 2017 demonstrates that our cash generation relative to EBITDA remains at a good level, even though seasonal factors play an important role.

Funds available from our first-half operating cash flow enabled us to reduce our **economic net debt** to €3.3 billion at June 30, 2017, a decline of about €900 million from year-end 2016. We achieved this improvement despite the fact that in June we paid out to Uniper shareholders the dividend for the 2016 financial year. Nevertheless, I'd like to point out that our economic net debt reflects the situation at the balance-sheet date. Our operating cash flow in particular is subject to seasonal fluctuations. It's also important to remember that most of our investment expenditures come in the second half of the year.

Our first-half **cash-effective investments** of €294 million were at the prior-year level. €192 million went toward our remaining growth projects, primarily our technologically advanced



coal-fired power plant Datteln 4 and the reconstruction of Berezovskaya 3 in Russia. We invested €102 million in maintenance and replacement.

Overall, Uniper had a solid first half of 2017. Despite persistently challenging market conditions, we're well on our way toward making our company's operating business and balance sheet fit for the future. So finally – the group outlook. On back of the solid H1 performance we are already at this relatively early point of the year able to adjust our outlook. At H1 stage with €930 million our adjusted EBIT already stands above the lower end of the full year EBIT guidance that we articulated in March. Consequently, we're therefore in a position to increase the lower end of the guidance range for adjusted EBIT to €1 billion. Furthermore, Uniper is making consistent progress in generating free cash flow. We expect our adjusted Funds From Operations – shortly FFO – to continue its very positive development. Therefore, we increase our guidance for 2017 dividend growth based on the unchanged dividend policy from previously 15% to now 25% growth compared to the dividend paid for fiscal year 2016, i.e. to a total dividend amount of 250 million Euro.”

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

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