Telephone conference for Media Representatives

Uniper's Business Performance in Q1 2019

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Statement by:

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[Speaker: Christopher Delbrück]

Thank you, Astrid. I too would like to welcome you to today's telephone conference, the first from our new shared office complex in Düsseldorf's Media Harbor. This brings us straight to a happy event from the first quarter: in late March we successfully united Uniper's activities in Düsseldorf at one single location. We've literally concentrated all our energy here. The combined expertise of roughly 2,400 colleagues will make us even better positioned in the future.

In fact, moving in to the shared office complex in the Media Harbor was one example of the noteworthy changes since our annual-results press conference almost two months ago. Another piece of positive news is that since last Thursday it has been clear who will succeed Klaus Schäfer as Uniper's CEO and me as CFO. In times that are so challenging for Uniper, the appointment of Andreas Schierenbeck and Sascha Bibert to the Management Board is a good and important sign, particularly for Uniper's roughly 12,000 employees.

But today we're going to look back at some of the key topics from the first quarter of Uniper's 2019 financial year. But I won't be able to give you news about all of them. The discussions with our major shareholder Fortum are one of these topics. As you know, Uniper communicated in early February that it intends to work with Fortum to determine, on the operational and strategic level, in which areas and how a partnership between the two companies adds value and to reach an understanding about this. You probably also know that my Management Board colleagues Eckhardt Rümmler and Keith Martin are taking the lead in this process for Uniper. What I *can* tell you today is that the discussions – at various levels and about various work packages – are under way. So things are moving forward well. But we share Pekka Lundmark's recent appraisal that it will be some time before we have specific results that are ready to be communicated. This won't be before the end of the summer.

Two other big Uniper investors – Elliot and Knight Vinke – have made their presence known in recent weeks. Both submitted requests for supplemental agenda items for Uniper's Annual Shareholders Meeting on May 22. There has already been some reporting and

speculation about this. Uniper's Management Board and Supervisory Board are preparing a joint statement that we'll likely publish on the Shareholders Meeting website in the next few days. I hope you understand that I can't comment further on this matter today.

Let's now take a look at what happened in our business, our portfolio, and the implementation of our strategy in the first quarter. We've made some encouraging progress in recent weeks. This includes the sale of our stake in OLT Offshore LNG Toscana and our remaining stake in Eneva of Brazil, although, strictly speaking, the latter transaction didn't close until after the conclusion of the first quarter. However, both stakes had one thing in common: they were purely financial investments in which we had no strategic ownership interest. They were therefore suitable for portfolio rotation, which means that we'll reinvest the sales proceeds in growth businesses that generate attractive returns.

The projects in which we'll be making noteworthy investments in the years ahead include the construction of a gas-fired generating unit at Scholven, our power station in the heart of the Ruhr district, and the construction of a 300 MW unit at Irsching power station in Bavaria to provide system backup. Both projects are now in the implementation phase and are making good progress.

We announced at our annual-results press conference that we'd participate in Russia's modernization program for older generating capacity. Here too our objective is for Uniper to generate stable revenues from capacity payments. The first auction provide capacity from 2022 to 2024 has already been held. Its preliminary results indicate that Uniper was awarded about one quarter of the capacity supply agreements up for auction. Surgutskaya units 1 and 6 had successful bids. The high- and intermediate-pressure cylinders and the generator will be replaced in both units. The second modernization auction – for a total of 3.2 gigawatts of capacity to be supplied in 2025 – will be held in September 2019. Uniper is studying whether to participate in this one as well.

The construction of Beryozovskaya 3 generating unit in Russia is making steady progress and continues to be on the budget and schedule we communicated. The remaining

investments total about 13 billion rubles. We continue to expect the unit to enter service in the fourth quarter of this year.

Let's return now to Germany, where Uniper has another strategically important project: the planned LNG import terminal in Wilhelmshaven. Right at the start of the first quarter, the project reached important milestones, foremost among which was the conclusion of a Heads of Agreement with U.S.-based ExxonMobil Corporation for a considerable portion of the terminal's regasification capacity. Discussions with capacity users are proceeding positively. We can see that there remains a lot of interest in capacity and in the project itself. It's also pleasing that the approvals process is moving forward as planned. We've received a lot of support from state and federal policymakers, which is indispensible for the realization of a project like this. Just last week, Andreas Feicht, Germany's State Secretary for Energy, stated his unambiguous support for the project and underscored the importance of LNG for the country's energy strategy. The German federal government believes that LNG is so important that now two LNG terminals are going to be built: one in Wilhelmshaven, one in Brunsbüttel. The fact that the LNG market as a whole has generally remained very dynamic has certainly also been beneficial for the entire effort, especially from Europe's perspective. The number of LNG tankers that have landed here recently is ample evidence that our emphatic support for a German import terminal has been absolutely correct.

Why has so much LNG recently arrived in Europe? As you know, LNG tankers go where the prices are highest. In the past, that's mostly been in Asia. This past winter was different. Asia also had mild temperatures and was well supplied with LNG, which led to comparatively low prices.

But Asia wasn't the only place where mild winter weather adversely affected the gas business. Inventories at gas storage facilities in Europe were significantly higher than in the prior year. On March 31, they still stood at more than 40 percent, which is three times higher than on the same date last year. LNG deliveries to Europe further increased supplies. These factors put pressure on wholesale gas prices, for example at TTF, a trading point in the Netherlands. The fact that the gas business could've been better is reflected in

our first-quarter numbers. But before we get to that, let's take a quick look at carbon prices, which currently are again the subject of much debate. Carbon prices recently rose sharply again, peaking at €27 at the end of April. Over the long term, this trend will benefit technologically advanced and efficient gas-fired power plants in particular. Rising carbon prices also provide support for power prices in Europe, which is increasingly reflected in the prices we obtain in our hydro and nuclear portfolio.

In addition, it's again evident that the reform of the EU Emissions Trading Scheme is having an impact. Uniper has always been strong advocate of the ETS, a functional, market-based mechanism that moves climate protection in the right direction. We should continue to work in this direction – together, on a pan-European basis, and without weakening the ETS through the unilateral policies of individual countries. There's currently increasing discussion in Germany about a carbon tax or levy that would apply exclusively to the country's energy and industrial sectors. We reject these proposals entirely. All such unilateral measures play neighboring countries off against each other, weaken Europe, and ultimately don't help the earth's climate at all.

Let's stay for a moment on the subject of the energy policy environment and the developments of recent weeks. The debate about the future of coal-fired power generation remains the dominant topic on Germany's energy policy agenda. The next steps to be expected are to transform the Coal Commission's recommendations into legislation and to implement them. However, specific legislation and specific negotiations are still pending. I'd like to emphasize again that the Coal Commission's recommendations reflect a broad social consensus. They should be implemented swiftly and not watered down by new proposals from individual players. Uniper needs clarity and planning certainty quickly; above all we owe it to our employees. An initial meeting between Uniper and the Federal Ministry of Economics took place a few weeks ago. Today we're not going to comment on the subject matter of the meeting. But we do welcome the fact that policymakers are now talking to us and not just about us. But there will be many more discussions ahead.

Meanwhile, we continue to work at full speed to make Datteln 4 power plant operational. On average, about 450 to 500 people work at the construction site. The assembly of the new

boiler is making good progress: half of the boiler membrane walls have already been installed, and welding is moving forward on schedule. At the same time, the steam generator in the upper part of boiler is being reinsulated. The peripheral equipment around the boiler is largely in place. So when the boiler is complete, the water-steam cycle can be put into operation without delay. In addition, the environmental offset measures at the construction site are now clearly visible. The ground has been refilled in all areas, and planting has already been completed in one third of the area. In the years ahead, a total 30,000 beeches and other trees as well as almost 9,000 shrubs will grow into a forest with liminal areas. In our view, there's therefore no reason not to assume that Datteln 4 will enter service, as planned, in the summer of 2020. Something else that makes us optimistic about Datteln 4's future is that in March the Hamm state superior court again upheld our interpretation of the law by ruling that our customers have to abide by existing contracts.

The future of coal-fired power generation is and doubtless will remain an important issue in Uniper's core markets of the United Kingdom, the Netherlands, and France as well. However, there were no significant new developments in the first quarter of 2019. Nevertheless, the social implications of the phaseout debate are particularly evident in France. We've pointed this out to the French government many times. Employees at our power stations in France have been on strike for months. It doesn't take much imagination to see that this will also have a considerable negative impact on Uniper's economic situation in France.

Before I get to our numbers, I'd like to say a few words about another issue that's frequently been part of our communications: the Nord Stream 2 pipeline in the Baltic Sea. A number of countries and governments continue to oppose the project, while at the same time the construction of the pipeline is progressing very well. According to the operating company, about 1,000 kilometers of pipe have already been laid on the seabed. Currently, a few kilometers remain before the pipeline reaches the Danish border near Bornholm. Denmark has not yet granted approval for the pathway around the island and is calling for alternative pathways to be considered. This has no immediate implications for Uniper, which is exclusively a financing partner of the project. From our point of view, it remains to be seen whether and to what extent this will lead to delays in the project's completion. An

amendment to the EU Gas Directive was recently adopted. For the sections of Nord Stream 2 on German territory or in German territorial waters, this means that the regulatory requirements of the EU Gas Directive will have to be applied in a few months' time. These include network access, the separation of network operations from sales operations, and tariff regulation.

I'll now provide commentary on our earnings and cash flow performance in the first quarter of 2019. As I just mentioned, the warm winter temperatures were generally not beneficial for Uniper's operating business. This applies in particular to our gas business. Inventories in our gas storage facilities reflected the general trend: they stood at more than 50 percent at the end of March, which is a very high level. The high inventories resulted in narrower margins, which adversely affected our operating earnings. This situation wasn't favorable for our operating cash flow either, since high inventories led to correspondingly lower cash inflow. We assume, however, that in the months ahead we'll again benefit more from the optionalities of our gas portfolio.

But first back to our first-quarter operating earnings. Uniper's adjusted EBIT of €185 million was about €166 million under the prior-year figure. Although this obviously isn't a reason for great enthusiasm, it didn't really surprise us either. We've always said that 2019 will be a transitional year in terms of our cash flow and earnings performance. In the first quarter, a mild winter and several temporary items were additional adverse factors for our power and gas business in Europe.

I'll explain them briefly one by one. First, the carbon phasing effect reduced our operating earnings by roughly €60 million. I explained the mechanism behind this in detail when we released our nine-month results last year. It's exactly the same situation. When we unwind our carbon hedging transactions in the fourth quarter of 2019, this temporary negative effect will be balanced out, and things will return to normal.

Another, likewise unsurprising item that adversely affected our first-quarter adjusted EBIT relative to the prior year is the fact that payments from the U.K. capacity market have been suspended since the fourth quarter of 2018. We continue to monitor the situation very

closely and hope that the U.K. capacity market will be reactivated during the course of the year.

Production at our power business in Europe was lower at a number of power stations for a variety of reasons. For example, at Ringhals 2 in Sweden, in which we own a minority stake, a generator was replaced. And the aforementioned strikes adversely affected our earnings in France.

As stated, our Global Commodity segment's gas and LNG business was weaker than we'd hoped. This applies in particular to its optimization activities, where earnings were about €60 million below the prior-year level.

The picture is much more positive at our generation business in Russia, whose adjusted EBIT was up by about 10 percent year on year. Despite a deterioration of the ruble relative to the prior-year period, earnings reported in euros were higher as well thanks to an increase in power prices and output compared with the first quarter of 2018.

I'll turn now to our operating cash flow, which at €105 million was significantly below the prior-year figure of €620 million. Although this isn't exactly typical for the first quarter, it can be readily explained by our earnings performance and market developments. Lower operating earnings automatically lead to lower operating cash flow. A look at our working capital also helps explain this development. Normally, gas and coal for Q1 – the winter quarter – are procured and paid for in the prior year. The sales from this inventory are cash-effective in particular in the first quarter. In 2019 practically the opposite occurred: our gas and coal inventory increased further instead of decreasing. Consequently, the cash inflow from the sale of gas and the sale of power generated from coal was significantly lower than in the prior-year period. This effect is attributable to the optimization of our portfolio as well as to mild temperatures and lower output from our coal-fired power stations. As the year moves forward, however, this high inventory will support our cash flow.

We recorded adjusted funds from operations (Adjusted FFO) of €243 million in the first quarter compared with €562 million in the prior-year quarter. This too largely reflects the

decline in our operating earnings. By contrast, the aforementioned seasonal fluctuations in working capital do not affect adjusted FFO, which, as you know, we use to assess the potential dividend payout to our shareholders.

I'll turn now to Uniper's current debt situation. First, the good news: our economic net debt remains stable. To provide even more transparency, we've adjusted this figure slightly since the start of the 2019 financial year. I'll explain briefly the logic behind this. Our economic net debt at March 31, 2019, includes, for the first time, the receivables from future transactions we make to hedge our trading transactions; this is also known as margining. Until now, we only included the liabilities from these transactions, which affected our debt figure one-sidedly.

Adjusting our year-end 2018 economic net debt of €3.2 billion by the margining effect of €700 million yields a pro forma figure of €2.5 billion at December 31, 2018. Compared with this figure, our economic net debt at March 31, 2019, was more or less stable: despite slightly higher provisions for pensions and other obligations, our debt was almost unchanged. It's perhaps worth mentioning that, if we hadn't adjusted our debt in the way I just described, it would've declined significantly from year-end 2018, namely from €3.2 to €2.8 billion.

Our cash-effective investments totaled €108 million in the first quarter and were almost entirely covered by our operating cash flow. As usual, the first-quarter figure is fairly low because we make most of our investments as the year moves forward. Two thirds of investments went toward our existing growth projects, one third toward maintenance.

Our debt situation at the end of the first quarter is therefore fully in line with our expectations and targets.

I'll conclude with the outlook for the 2019 financial year. Although there's still quite a way to go, we remain confident that we'll achieve our targets for full-year 2019. We therefore unequivocally reaffirm the earnings forecast and dividend proposal we communicated at our annual-results press conference. More specifically, we expect our adjusted EBIT to be

between €550 and 850 million. We also reaffirm our forecast for adjusted funds from operations to be between €650 and €950 million. We therefore stand by our increased dividend proposal for the 2019 financial year of €390 million.

I now look forward to your questions.