



Telephone conference for Media Representatives

Uniper's Business Performance in H1 2019

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Statement by:

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[Speaker: Andreas Schierenbeck]

Thank you, Mrs. Quarten. I too would like to welcome you to today's telephone conference, the first for Sascha Bibert and me. We're pleased to have the opportunity to provide you with an overview of Uniper's viewpoint on current topics as well as the company's first-half numbers.

The most important thing first: our main performance indicators are in line with our expectations. We therefore reaffirm Uniper's earnings forecast and dividend proposal for full-year 2019. Later on, Sascha Bibert will provide detailed commentary on our numbers.

Before I turn to the issues that affected Uniper last quarter, I'd like to start with a few personal impressions.

Although I began my work here just two months ago, I already feel at home at Uniper. The many colleagues who enabled me to get off to a smooth and pleasant start played a big part in this. They made sure that I got up to speed in the shortest possible time.

A special thanks goes to my Management Board colleagues Eckhardt Rümmler and Keith Martin. Having two such experienced Board members at our side has helped us enormously, especially in the current phase. Regardless of their decision to leave the company in a few months, both remain highly motivated and work very hard for Uniper each and every day. Sascha Bibert and I quickly established a very good working relationship with them. I think it's fair to say we've formed a good team.

It's very important to me, particularly during my start at Uniper, to visit our operating facilities and to meet the people who work at them. I have to say that what I've seen



so far has impressed me very much: from Datteln 4, the technologically advanced hard-coal-fired power plant we're building in Germany, to Grain, our highly efficient gas-fired plant in the United Kingdom, to Uniper's unbelievably high and, in my view, exemplary standard for occupational safety.

After such a short time I obviously don't know every facility or every single project. But I do already know one thing: that Uniper's portfolio is extraordinarily diverse and that this is a special strength of our company. If you add in our outstanding employees, I can say without a doubt that Uniper has a lot to offer – certainly far more than the issues that have dominated public perception in recent weeks. Our people work hard every single day to continue Uniper's success story. That's something that shouldn't be forgotten.

I spent many years of my professional life in the manufacturing industry. Consequently, a reliable energy supply coupled with innovative customer solutions has always interested me. That's exactly what Uniper delivers. And that's exactly what a highly industrialized country like Germany needs, particularly in view of the enormous structural upheavals the country's energy markets have experienced. Uniper is well positioned to offer individually tailored solutions for the challenges of the energy future.

This brings me to a number of important issues for our operating business in recent weeks. Let's start by taking a look at international energy and commodity markets. Although these markets continue to be very volatile, wholesale power and carbon prices have for some time now been moving upward. At the end of June, the year-ahead price for baseload electricity in Germany was over €50 per megawatt hour, and carbon allowances were selling for about €30 per metric ton. The more carbon prices increase, the greater the benefit for low-emission technologies. At Uniper, these are primarily our hydroelectric and nuclear power plants, which produce



carbon-free electricity in Germany and Sweden and delivered higher second-quarter earnings relative to the prior-year period.

Carbon prices reached record highs. But in June fuel prices, particularly gas prices, were lower than they've been for a long time due to an oversupply of gas in Europe. As a result, however, another comparatively climate-friendly generation technology became competitive again: gas. Thanks to their low marginal costs, even less efficient gas-fired plants were able to compete with coal-fired power plants – even lignite-fired plants.

In the first half of 2019, Uniper's fossil generation portfolio for the first time produced more power from gas than from coal. The much-touted fuel switch from coal to gas is thus actually taking place. Whether it's sustainable, however, is another question. At the latest when the heating season begins this autumn—when gas for space heating is withdrawn from Germany's currently well-filled storage facilities—the situation could change.

All of this demonstrates that energy markets' only constant is their volatility. Uniper's business portfolio is particularly well equipped for these fluctuations.

Technologically advanced and operationally flexible power plants, global energy trading, and a broad gas portfolio enable us to benefit from rapidly changing market situations and opportunities. This portfolio also makes us an important player in ensuring supply security and system stability in our markets.

Carbon prices are currently reaching highs of up to €30. This demonstrates that the European Emissions Trading Scheme (ETS) works and provides incentives. This is an important signal coming at the right time. Because climate protection has never been higher on the political agenda than today.



But instead of presenting new variations on carbon-pricing schemes and trying to outdo each other with their policy proposals, I think European countries would be well advised to strengthen the ETS, which took so much effort to put in place.

We therefore welcome the general direction proposed by the future President of the EU Commission, Ursula von der Leyen, who announced ambitious new carbon reduction targets and is clearly committed to a European solution.

And before Germany readjusts its carbon policies – as its European neighbors are doing – it should first do its homework. By this I mean that Germany, after repeatedly announcing that it intends to phase out coal-fired power generation, finally needs to put these words into action. Ultimately, a successful coal phaseout will represent a very important milestone toward achieving the country's climate protection targets. And that's why, in my view, this step should be taken boldly yet prudently.

The Coal Commission has given Germany a set of really good proposals. The task now is to make these proposals legally binding.

By autumn, the German federal government intends to pass legislation that we hope will provide us with legal and planning certainty, which is indispensable for spurring investment in tomorrow's technologies. We're in contact on regular basis with the right people in Berlin and will try to do what we can to support the federal government's efforts.

At this juncture, I'd like to say a few words about Datteln 4 power plant. When I heard that the coal phaseout discussion might result in Datteln 4 never entering service, I admit I was astonished. As someone who always starts by looking at the facts, I find this rather absurd. After all, Datteln 4 is one of Europe's most technologically advanced and efficient coal-fired power plants. It's significantly



superior to older plants, including in terms of its climate performance. If we then also consider supply security and don't want to unduly burden German consumers and tax payers, then there can hardly be any other choice than for Datteln 4 to enter service.

So as long as we don't have any indications to the contrary—and we don't—the team of more than 450 employees will continue to work tirelessly to put Datteln 4 into service. At the site I saw in person that we're making very good progress. The repair work to reinstall the steam boiler is at an advanced stage. The next milestone will come in early September when we conduct a pressure test of the boiler. This will involve fatigue tests of every single seam weld, of which there are more than 35,000. The commissioning of the power plant's other components is already largely completed, and we plan to begin bunkering coal in early October. We're confident that Datteln 4 will be online by the summer of 2020.

In early July we closed the sale of our business operations in France to EPH. The French government announced a very early target – 2022 – for phasing out coal-fired power generation. In the intervening two years, it has been unable to establish a reliable regulatory framework for plant operators, let alone provide plant employees with the prospect of a social plan. The closure of both our coal-fired power plants in France long before the end of their useful operating life would've put our entire business there in jeopardy. Uniper therefore had to make a business decision

Let's take a look into Europe's future. Imagine that the last coal-fired power plant has been closed and that nuclear energy is also history, at least in Germany. How will Europe ensure the security of its energy supply and stability of its energy system? And how will Germany – Europe's leading industrial economy – do this for itself?



All of us, but industrial customers in particular, depend on a reliable supply of electricity, heat, and compressed air. Even the briefest interruption can paralyze industrial companies' production processes or render them unusable. The costs quickly take on considerable dimensions and pose serious consequences for Germany as an industrial economy. So when the majority of conventional generating capacity has been shut down, gas in particular will play an even more crucial role in Germany's energy mix, at least for a transitional period.

Uniper's various activities along the gas value chain make it one of the most important companies in Europe's gas market. Gas is the ideal complement for renewables because it can provide backup for the intermittent availability of wind and solar power. The supply of gas is reliable and available at all times. These qualities will enable gas to help secure the public's lasting support for the transformation of the energy system as a whole. So far, Europe's existing generating capacity – and its countless reserve and backup mechanisms – have made its situation comfortable. We're used to an extremely stable and secure energy supply. But when the living room lamps flicker, the heat or water supply is interrupted, and telephone and mobile networks are out of service – then support for the energy transition very quickly wears thin. At that point, a few people may realize that electricity that comes from their wall sockets has to be produced somewhere.

Getting back to my topic, the governments of various European countries have recognized that gas can and must make an important contribution to the success of the energy transition. In Germany, for example, a law mandates the construction of new gas-fired power plants in the southern part of the country to ensure the security of the electricity supply well into the future.

Transmission system operator TenneT conducted a tender in which it awarded Uniper a contract to build and operate a new gas-fired generating unit at Irsching power station near Ingolstadt. From 2022 onward, the 300 MW unit will provide a



safety cushion by supplying power at times of system stress. Uniper's decades of experience in power-plant construction enabled it to submit the most attractive offer. Other European countries have put in place capacity markets that favor the maintenance and use of gas-fired power plants. And the European Commission has also created a framework for member states to use gas to help them achieve their climate-protection targets.

We need renewables for the energy transition to succeed. But above all we need solutions for storing renewable energy and thus making it reliable. So far, no such solution has a convincing business case. But we need to gradually move in that direction.

I'd now like to outline a Uniper project with precisely this purpose. In mid-July, the German Federal Ministry for Economic Affairs and Energy selected Uniper and its consortium partners (VNG Gasspeicher, DBI Freiberg, and Terrawatt Planungsgesellschaft) for the final round of the selection process for government funding. The project involves a large-scale plant to produce and store green hydrogen near Bad Lauchstädt in Saxony-Anhalt. The plant would use renewable power from a nearby wind farm to run electrolysis equipment that transforms water into green hydrogen. The green hydrogen would be stored underground on an interim basis in a converted salt cavern. From there it can be fed via a rededicated gas pipeline to the chemical industry's hydrogen network and used for urban transport and other solutions. Energiepark Bad Lauchstädt would serve as a platform for testing every aspect of the intelligent and economically efficient integration of green hydrogen under real-world conditions and on an industrial scale. If this proves successful on a large scale, we've found another key ingredient of a secure and sustainable energy mix.

But let's leave Europe for a moment and turn to Russia, a country that has long been known to rely heavily on gas and with which Uniper has had a good



relationship for decades. For some time now, Russia has been conducting a major modernization program for power plants. Its purpose is not only to increase supply security and efficiency but also to reduce carbon emissions. Companies prepared to invest to upgrade their assets participate in an auction. Those selected receive attractive compensation for their investment. In the first auction, we were awarded about 24 percent of the capacity up for auction. We're now studying whether to also participate in the second auction, which begins in September.

While we're on the subject of Russia, I'd like to update on the status of the reconstruction of Berezovskaya 3 generating unit. You know from previous Uniper quarterly presentations that an extremely complex repair process like this one can run into the odd hurdle, such as the extreme weather conditions typical of Siberia or higher standards for fireproof coatings. This has had again impact on the timetable. We currently expect the unit's reentry to service to be delayed until the first quarter of next year. Obviously, we wished this was otherwise. But considering the scale of the project, one aspect is definitely noteworthy: after more than six million work hours, there have so far been no serious accidents. This demonstrates that our investment in the occupational safety of our employees and contractors is paying off.

I'll conclude by talking about an issue that continually occupies us at Uniper and of course also you in the media: Uniper's relationship with Fortum, its largest shareholder. This level of interest is understandable, and of course I was aware of it from the beginning. I'm also aware of the great expectations that this situation places on me. I can assure that Fortum has been an important topic on my agenda since my first day at Uniper. And I've of course thoroughly familiarized myself with the facts, the areas of disagreement, and also the course of events.

I encountered the Russia issue very early in this process. Perhaps a fresh, fact-based, and analytical look at the situation would be helpful. Because I could never



really understand the problem or the indignation regarding water treatment. A Russian law classifies Uniper as a “strategically significant company” owing to its water supply activities at Surgutskaya power station. The strategically relevant water supply activities encompass a registered monopoly business – the water supply itself – and a licensed water analysis.

In July 2017, the Russian Federation passed a law that forbids the acquisition of a strategically significant company by an entity that is majority owned by a foreign country. This law took effect before Fortum – behind closed doors – presented to Uniper its idea for a takeover offer. Because the Finnish state is Fortum’s majority shareholder, it was extremely foreseeable that the Russian authorities would subject the transaction to particular scrutiny. Moreover, Uniper – before Fortum formally presented its takeover offer – actively alerted Fortum to this legal restriction in Russia. In other words, Fortum was fully aware of this issue when it decided to make another takeover offer. To present this legal hurdle months later as a new problem neither makes sense to me nor does it fit the facts.

So much for the past. But how will things proceed between Fortum and Uniper? Right after I assumed this position there were initial discussions between Pekka Lundmark and me. We also invited Pekka Lundmark to explain his strategy and his plans for the future to the members of our Supervisory Board. This meeting took place right around a month ago and was certainly useful in terms of promoting mutual understanding. Since then he and I have also talked and met several times. Has this enabled us to make significant progress? Perhaps not to the degree we’d all like. But the most important thing is that we keep talking to each other. And we’re doing that. For now I’d like to leave it at that.

I’ll now hand things over to Sascha Bibert for a look at Uniper’s numbers for the first half of 2019.



[Speaker: Sascha Bibert]

Thanks, Andreas. A warm welcome from me as well. Uniper is both new and familiar to me. I know many of the people here as well as the issues from my earlier roles at E.ON. That has made my start here quite a bit easier. But a lot of things are new to me, like Uniper's unique corporate culture, which combines tradition and experience with a bold attitude and a keen sense for emerging trends and innovations so that the company can continue to play a key role in tomorrow's energy world as well. What has impressed me the most over the past few weeks is the deep expertise that the entire team brings to projects and the company's strategy and the willingness to continually rethink things.

I'll now provide commentary on Uniper's key financial performance indicators for the first half of 2019.

Following the usual order, I'll start with our operating earnings: Uniper's adjusted EBIT of €308 million was €293 million below the prior-year figure of €601 million. We anticipated most of the reasons for this decline, and they're likely familiar to you from our previous quarterly presentations. They include the absence of positive one-off items recorded in 2018, such as disposal proceeds and the release of provisions. The same applies to effects resulting from LNG hedging transactions. Together, these items will total nearly €200 million by the end of the year.

In addition, we've lacked some income since the end of 2018 owing to the suspension of the U.K. capacity market. By contrast, price developments for our hydro and nuclear power stations had a positive impact on earnings, as did the improvement at our gas business, which we communicated in March.

There were also a number of other items that adversely affected our first-first earnings but that by the end of the year likely will no longer have an impact. They



include the carbon phasing effect, impairment charges on coal inventory, and strike-related production outages at our power stations in France. These items totaled about €150 million in the first half of the year.

Looking ahead to our full-year earnings, it's important to distinguish between the two types of items:

- first, items that we foresaw and factored into the earnings guidance for full-year 2019 that we issued in March;
- second, items that adversely affected the first half of 2019 but that likely will no longer play a significant role for the year as a whole.

For a detailed look at the individual EBIT items, I'll turn now to Uniper's business segments, starting with **European Generation**:

This segment's adjusted EBIT declined by €199 million, from €372 million in the prior-year period to €173 million in 2019. The carbon phasing effect that we saw in the first quarter had almost the same impact on our first-half numbers. The mechanism behind this effect is this: expenditures for each metric ton of carbon emissions are factored into our adjusted EBIT through provisions we create based on the spot-market price at the quarterly balance-sheet date. By contrast, the corresponding carbon hedging transactions and the resulting mark-to-market valuation gains won't show up in our adjusted EBIT until year-end 2019. In other words, things will return to normal in the fourth quarter.

Another, likewise anticipated item at European Generation is the absence of income from the U.K. capacity market, which, as you know, was suspended in the fourth quarter of 2018. In addition, the figure for the first half of 2018 benefited from income from the sale of the Ironbridge property in the United Kingdom and the



release of provisions for a hydroelectric station due to a change in the dismantling plan for it. These positive items didn't recur this year.

Production at a number of our power stations was lower than in the prior-year period for a variety of reasons. At Ringhals 2 in Sweden, in which we own a minority stake, a generator was replaced. Maasvlakte, our technologically advanced coal-fired power plant in the Netherlands, had a roughly six-week unplanned outage in the first half of 2019 due to damage to a turbine. We're now using a scheduled maintenance outage to repair this damage as well.

In the first half of 2019, our generation business in France suffered from strike-related production outages that adversely affected our economic situation there. Because all of 2018 suffered from a similar unavailability—and because we sold our operations in France at the start of the third quarter—this effect will largely disappear in the full-year comparison of 2019 with 2018.

Adjusted EBIT at our **Global Commodities** segment declined by €95 million, from €186 million in the prior-year period to €91 million this year. Our gas business got off to a weak start in the first quarter. However, the situation improved significantly in the second quarter, which enabled us to benefit from our optimization activities. Our coal-trading business had to record an impairment charge on inventory owing to the decline coal prices. However, the fact that we've already hedged a substantial portion of this inventory at higher prices will have a positive impact on our earnings in the second half of the year. Consequently, this temporary negative effect from the first half of the year will diminish considerably by the end of the year.

Our forecast for 2019 pointed out that LNG hedging transactions that we concluded in 2018 would have an adverse impact on our 2019 earnings: the Freeport LNG proxy hedge was very positive in absolute terms in 2018 but is negative this year. This is precisely what we're seeing now.



International Power posted significantly positive earnings: this segment's adjusted EBIT of €174 million was €32 million above the prior-year figure. Higher output at Surgutskaya and Beryozovskaya power stations in Russia and an increase in power prices were the main factors.

We recorded first-half net income of €968 million. The increase relative to the prior-year period, in which we had a net loss of €522 million, is chiefly attributable to positive effects from the marking to market of the commodity derivatives that we use to shield our power and gas business from price fluctuations.

I'll turn now to our **operating cash flow**, which at -€322 million was roughly €787 million below the prior-year figure of €465 million. This development is unusual for the first half of the year. Our weaker earnings performance isn't nearly enough to explain it. But a look at our working capital helps make this development easier to understand. It alone accounted for three quarters of the decline.

So what happened? Normally, gas for Q1—the winter quarter—is 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 inventory increased further (in particular because of low price levels) instead of decreasing (because of mild temperatures). Consequently, the cash inflow from the sale of gas was significantly lower than in the prior-year period.

We recorded adjusted funds from operations (**adjusted FFO**) of €124 million in the first half of 2019 compared with €589 million in the prior-year period. The decline largely reflects the development of our operating cash flow. As you know, the changes in working capital do not affect adjusted FFO, which is why the decline was significantly smaller.



I'll turn now to Uniper's current **debt situation**. As you know, to provide even more transparency, we've adjusted this figure slightly since the start of the 2019 financial year. Our economic net debt at March 31, 2019, included, for the first time, the receivables from the futures transactions we make to hedge our trading transactions; this is also known as margining. Until that point, we'd 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 June 30, 2019, increased by €674 million to €3.2 billion. The two main reasons for the rise in our debt were the aforementioned increase in working capital - in particular due to higher inventory at our gas-storage facilities - and a €218 million increase in provisions for pensions due to interest-rate adjustments.

Our cash-effective investments of €240 million were slightly below the prior-year figure of €244 million. We invested €145 million in our existing growth projects and €94 million in maintenance.

Proceeds from the sale of our remaining stake in Eneva of Brazil and our stake in OLT Offshore LNG Toscana had a positive impact but weren't enough to offset the negative factors. We anticipate that stronger cash flow will significantly reduce our debt by the end of the year.

I'll conclude with the outlook for the 2019 financial year.

We unequivocally stand by our earnings forecast and dividend proposal. More specifically, we expect our adjusted EBIT to be between €550 and €850 million. We reaffirm our forecast for adjusted funds from operations to be between €650 and €950 million. And at our Annual Shareholders Meeting we still plan to present our shareholders with a dividend proposal for the 2019 financial year of €390 million.



Andreas Schierenbeck and I now look forward to your questions.

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